DOCUMENT RESUME

ED 368 469 PS 022 176

AUTHOR	Stoney, Louise; Zeller, Dennis
TITLE	Child Care Financing in Iowa: Maximizing Funds, Coordinating Services and Structuring Rates.
SPONS AGENCY	Iowa State Dept. of Human Services, Des Moines.
PUB DATE	Jul 93
NOTE	113p.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	MF01/PC05 Plus Postage.
DESCRIPTORS	At Risk Persons; *Day Care; Early Childhood Education; Finance Reform; *Financial Policy; *Grants; Program Descriptions; *Program Improvement; State Aid; *State Programs; State Standards; Statewide Planning
IDENTIFIERS	*Child Care Costs; *Iowa

ABSTRACT

This report was prepared for the Iowa Department of Human Services (DHS) to help the state: (1) examine the current child care subsidy system in Iowa; (2) seek ways to maximize federal, state, and local funds for child care services; (3) simplify the administration of child care subsidies; and (4) promote the use of high quality child care, especially for special needs and at-risk children. The first section of this report provides a detailed description of the current DHS child care subsidy system. A discussion of how this system interfaces with early childhood care and education funds administered by other federal, state, and local agencies is also included. The second section includes an in-depth discussion of the project goals as well as a number of recommendations for improving the system. A workplan, which includes implementation steps, time frames, and resources needed, follows. Appendixes provide an analysis of the implications of the Americans with Disabilities Act with regard to child care rate policies, and a discussion of the issues to be addressed in future child care market rate surveys. A summary of child care provider interviews and a list of individuals interviewed for the report are also appended. (MDM)

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Child Care Financing in Iowa:

Maximizing Funds, Coordinating Services and Structuring Rates

Prepared For
The Iowa Department
of Human Services

by
Louise Stoney
Dennis Zeller

July 1993

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REFORMING THE CHILD CARE SUBSIDY SYSTEM: GUIDING PRINCIPLES FOR IOWA DHS

1. Look at the child care subsidy system as a whole, rather than as discrete funding streams. All available resources should be used together to create a strong, coordinated subsidy system.

- Establish consistent policies and procedures for all child care funding streams, e.g. IV-A, TCC, ARCC, CCDBG, SSBG, and state funds. (See chart on page 31 for specific recommendations.)

- Allow the fiscal office--rather than the caseworker--to determine the most appropriate funding stream. Intake staff should be responsible for recording the relevant eligibility characteristics of each child and family; fiscal staff can then use this information to determine the most appropriate funding stream, according to a pre-determined hierarchy. (For more discussion, see pages 32-37.)

- Establish a single point of entry for families in need of child care assistance, and explore the feasibility of contracting with CCR&R agencies to serve as this entry point and administer all child care subsidies. (See pages 43-47.)

2. Seek ways to maximize federal, state and local funds for child care services, and develop stronger fiscal management policies.

- Secure additional federal funds under Title IV-E foster care and Title IV-A Emergency Assistance and Special Needs. (See pages 38-39.)

- Clarify that DHS day care funds cannot be used to support therapeutic or special education services (e.g. speech, hearing, physical or other therapies; individual or group counseling; etc.) DHS should work with DOE to make funds available for therapeutic services from such sources as: Part B of the Individuals with Disabilities Education Act, the DOE At-Risk program, weighted special education funds, and Chapter I. Medicaid should also be considered as a possible funding source for these services. (See pages 51-53 for a discussion of service definitions.)

- Assuming it is feasible to contract with CCR&R agencies to administer child care subsidies, encourage and assist these agencies in securing additional contracts to administer subsidies on behalf of a variety of public and private entitles (e.g. local governments, school districts, United Way, etc.) These funds could be used to further augment DHS child care subsidies.

- Develop an automated system for determining which child care funding stream will be used for each case (i.e. an individual child or family.) An expert system, which uses eligibility logic programmed into the computer, could make these decisions based on a

pre-determined funding hierarchy. Such a system could also shift families among the funding streams at various points in the year if such a shift would result in a more advantageous funding mix. (See pages 39-42.)

- Develop an automated mechanism for projecting the child care expenditures to which DHS is already committed. Such a system would maintain data on clients who are already receiving child care subsidies and use historical data to determine both the probability that these clients will remain in the system and the length of time they are likely to remain. (See pages 42-43.)

3. Simplify the administration of child care subsidies.

- Develop automated systems to support the administration of child care subsidies. Ensure that these systems maximize electronic transfer of information and minimize paperwork and duplication.

- Develop a one page screening/intake form to obtain the information necessary to identify those clients who are entitled to services or who are in a high priority target group, and to assign a priority code to those who may be placed on the waiting list. (See page 48.)

- In purchasing child care, use a half-day as the sole unit of service and write child care certificates which provide maximum flexibility to both the client and the provider. Certificates should not specify the exact hours care is to be provided, but simply state the number of units of care for which the family has been approved each week or month. (See pages 63-72 for a discussion of establishing units of service; see page 49 for a more general discussion of certificates.)

- Establish two rate options for subsidized child care: a basic rate and a special needs supplement. Decisions regarding which of these two rate options is approved in a given case will be based on an assessment of the child. (See pages 53-57, and the matrix on page 58.)

4. Promote the use of high quality child care, especially for children who are receiving protective services or have special needs.

- Make the current voluntary family child care registration system mandatory for all child care providers who care for six or fewer children in the provider's home. (See page 52.)

- Develop an Integration/Quality Improvement Grants program to assist providers in becoming accredited and in serving children with special needs. (See page 59.)

- Require that children who are receiving protective services be placed in accredited child care programs. If accredited care is not available, these children should be placed in a licensed or registered child care setting. (See pages 52 and 57.)

- Amend the definition of special needs to include children who have a condition or behavior associated with being the victim of abuse or neglect (e.g. protective services cases.) This will allow them to receive a higher reimbursement rate and will make it easier to secure a high quality child care provider. (See page 55 for a discussion of service definitions.)

- Explore the need for and feasibility of establishing a limited number of provider contracts in low-income communities where the need for subsidized child care is great, the supply of child care centers is limited, and freezes on the availability of subsidy funds have placed these centers in financial jeopardy. (See pages 60-61.)

- Conduct a new market rate survey within the next twelve months, using an entirely different format. (See pages 67-72, and Appendix B.)

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Introduction

Background

In recent years a number of new federal funding streams have been established to support child care services for current and former public assistance recipients as well as employed, low-income families. As a result of these initiatives, child care programs and services in the State of Iowa have grown dramatically and rapidly. Between 1990 and 1992, Department of Human Services (DHS) expenditures for subsidized child care increased from $7.6 million to over $17.8 million -- a jump of 134% in just two years.

But as the funds available to support child care have grown, so, too, has the demand for these services. The average number of children receiving DHS child care nearly doubled between 1990 and 1992. Yet the following year -- in June of 1993 -- available funds were depleted, intake was closed, and the waiting list for subsidized child care grew to include an estimated 7,400 children.

Developing policies to effectively handle this rapid growth and spiraling demand has been a challenge for DHS. The department has also struggled to comply with the varied and complex regulations which accompanied the new federal funds. These regulations were issued at different points in time and by different federal offices. At times, the rules and regulations for one funding stream conflicted with those of another. Deadlines for expending the new federal funds were also tight. Expectations were high. Child care providers and advocates who worked for many years to secure federal child care funds hailed the passage of the Child Care and Development Block Grant as a major victory, and waited eagerly for new programs and services.

Given the demands placed upon them, DHS has had little choice but to move as fast as possible to spend the new child care funds while simultaneously making the legal and administrative changes necessary to comply with federal requirements. Although staff have worked hard to develop effective policies, little time has been allowed for planning.

It was precisely these concerns which led DHS to request assistance in conducting an analysis of their child care subsidy system and developing more specific service definitions and reimbursement policies.

Purpose

In May of 1993, Stoney Associates was retained to work with the DHS Child Care Unit, and, in consultation with an advisory committee, the following goals were established for the project:

- To identify the regulations and procedures which must be revised in order to achieve a more consistent and "seamless" child care delivery system;

- To develop and define a child care subsidy system which is responsive to and driven by the child care market;

- To develop a rate structure which supports a parent choice, market driven child care subsidy system;

- To develop both long and short-term strategies to improve the management of child care funds and maximize the use of all available federal, state, and local funds; and

- To assist the department in achieving efficiencies in administering child care funds by identifying the functions which an automated intake and payment system must perform.

A New Paradigm

When the federal government made funds available for child care assistance it also required that the funds be delivered in a way which supported parent choice and responded to the local child care market. States were required to establish "certificate" (voucher) programs, to reimburse providers on the basis of market rates, and to ensure that subsidized parents were able to purchase care from the provider of their choice.

In addition, the federal government strongly encouraged states to coordinate all of the funds available to support child care services into one, "seamless" system. The goal of such a system is to ensure that families are able to receive continuous child care assistance as they move from public assistance to self-sufficiency. DHS agreed that this was an important goal, but found that implementing such a system was a complex endeavor.

In Iowa, as in many states, complying with many of the new federal rules not only required that new policies and programs be established, but that a significant shift in perspective occur. DHS was no longer responsible for administering a small purchase of service program which included a limited number of regulated providers over whom they had significant control. Along with the increased funds came responsibility for developing a child care delivery system which included all child care providers who were legally permitted to operate in the state and which was driven by parent choice. A host of new issues and concerns arose.

This report seeks to address many of those concerns. By making specific policy recommendations in some areas, and simply raising issues and encouraging discussion in others, we hope to assist the department in establishing both long and short term goals for the child care subsidy system. Due to limitations on time and resources this report focuses on financing issues, and the administration of child care subsidies in particular. Concerns about the quality and supply of child care available to low-income families have been addressed

only briefly, and only in terms of their relationship to the administration of child care subsidies.

The first section of the report provides a detailed description of the current DHS child care subsidy system. A discussion of how this system interfaces with early childhood care and education funds administered by other federal, state, and local agencies is also included. The second section includes an in-depth discussion of the project goals as well as a number of recommendations for improving the system. A workplan, which includes implementation steps, time frames, and resources needed, follows. Finally, an analysis of the implications of the Americans with Disabilities Act with regard to child care rate policies is included in Appendix A, and a discussion of the issues to be addressed in future child care market rate surveys is included in Appendix B.

The information provided in this report was drawn from an analyis of relevant Iowa Codes and Rules, policy manuals, administrative letters, reports, and other resource materials provided to us by DHS. In addition, the consultants interviewed DHS staff (in the central office and in the field), as well as staff in the State Education Department, Job Service, JTPA/PROMISE JOBS, Head Start, and other relevant agencies. Further efforts were made to gain input from child care providers. Telephone interviews were conducted with thirteen providers who represented both center-based and family-based care in urban and rural areas of the state. A summary of the provider interviews is included in Appendix C.

The Iowa Child Care System

Child Care Funding Streams

There are nine funding streams for child care subsidies which are administered by the Iowa Department of Human Services (DHS). Four of these are *entitlement* programs. An entitlement to child care services means that the state is required by law to provide child care assistance if requested by eligible families. State and federal funds for entitlement programs are not capped. A description of these programs is included below; expenditure data and state/federal match requirements for each of the programs are also included in Table I, on page 7.

- JOBS Child Care (Title IV-A) - These funds support child care subsidies for PROMISE JOBS participants.[1]

- Title IV-A Child Care Disregard - AFDC recipients who are employed are allowed to disregard up to $200 per month (for children under the age of two) or $175 per month (for children two or over) of earnings when determining eligibility for assistance each month. In order to have the disregard applied, recipients must furnish documentation of the expense that is to be incurred. Since AFDC budgets are calculated retrospectively, it typically takes at least two months for the disregard to increase the size of a recipient's monthly benefits. When the disregard is used, the recipient (rather than DHS) pays the child care provider.

- Transitional Child Care (TCC) - Families who have become ineligible for AFDC because of earned income are entitled to receive up to one year of transitional child care assistance. Iowa has applied for a federal waiver to increase this entitlement to two years.

- Food Stamp Child Care - This funding stream provides child care assistance to families who are not on AFDC but are eligible for food stamps and are participating in Iowa's Food Stamp Employment and Training program. (FSET)

In addition to the entitlement programs, there are five capped funding streams which are used to fund child care services for low-income families who are not eligible for entitlements. In a capped program, eligible families can be denied services when funds budgeted for the program are expended. A description of these programs is included below. Expenditure data and state/federal match requirements for each of the programs are also included in Table I on page 7.

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[1]The courts are increasingly ruling that this entitlement to child care assistance includes any AFDC recipient who is participating in the same education and training activities which are part of the state's JOBS program, regardless of whether or not the recipient is actually a JOBS participant.

- At Risk Child Care (ARCC) - This funding stream provides child care assistance to employed families who would be "at risk" of becoming eligible for AFDC without such assistance. Single parent families with incomes at or below 155% (or 100%, after July 1, 1993) of poverty and families who have completed twelve months of TCC but still remain income eligible are eligible to receive At Risk Funds.

- Child Care and Development Block Grant (CCDBG) - Seventy-five percent of the state's CCDBG funds must be set aside to provide child care assistance to low-income families. These funds are used to provide child care subsidies to: low-income families and teen parents who are either employed, participating in education or training programs, or have children with special needs. In addition, this funding stream is used to provide child care assistance without regard to income to children who are in need of protective services and foster parents who are employed or in a job training or education program.

- Social Services Block Grant Child Care (SSBG) - Commonly known as "Title XX" child care, this funding stream is used to serve the same families and children who were identified below, in the State Child Care Assistance funding stream.

- State Child Care Assistance - This funding stream is used to provide child care assistance to low-income families who are employed, participating in education or training programs, or have children with special needs. These funds also support child care services, for a limited period of time, to families where the child's caretaker is absent due to hospitalization, physical or mental incapacity, or death.

- Protective Services Child Care - This funding stream is used to provide child care assistance to children who have been abused or are at risk of abuse.

Eligible Child Care Providers

The child care funding streams described above are administered to families via a certificate (voucher) in which parents choose their own child care provider.[2] There are, however, three cases in where parent choice may be limited. First, in protective services cases, where the social worker is involved in assisting the family in selecting a child care provider, the worker may not approve the child care placement selected by the parent if s/he feels that the placement is not in the best interest of the child. Second, in cases where the care is paid for by the Transitional Child Care (TCC) funding stream, payment has been limited to regulated child care. And third, effective July 1, 1993, parents may select in-home child care only if they have three or more children in need of care.

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[2]Prior to June 30, 1993, funds were administered to a number of child care providers via purchase of service (POS) contracts. The POS system has now been phased out.

Table I
Funding Streams for Child Care Services

Funding Stream	Administrative Body/ Client Point of Entry	Fed/ State Share	Expenditures			Average # of Children Served (per month)		
			SFY 90	SFY 91	SFY 92	SFY 90	SFY 91	SFY 92
JOBS Child Care	Economic Assistance: • IM staff • Job Service staff • PROMISE JOBS contractor	63/37	1,920,122	2,405,768	1,875,498	n/a	n/a	1,108 families
IV-A Child Care Disregard	Economic Assistance: • IM staff	63/37	n/a	n/a	181,845	n/a	n/a	1,423 families
Transitional Child Care	Adult, Children and Family Services: • IM staff	63/37	0	861,284	886,932	0	269	326
Food Stamp Child Care	Economic Assistance: • Empl Asst Staff	50/50	Very low use; one or two families are served. Cost is $160 per month for each dependent for the four week training program.					
At Risk Child Care	Adult, Children and Family Services: • Services staff	63/37	0	620,694	5,379,387	0	1047	2118
Child Care and Development Block Grant	Adult, Children and Family Services: • Services staff	100/0	0	0	4,593,671	0	n/a	3,452
Protective Services Child Care	Adult, Children and Family Services: • Services staff	0/100	2,276,611	2,502,752	2,905,510	2301	2043	2366
Social Services Block Grant	Adult, Children and Family Services: • Services staff	100/0	1,365,329	1,365,329	1,365,329	3232	3181	3609
State Child Care Assistance	Adult, Children and Family Services: • Services staff	0/100	6,988,133	7,078,879	6,337,323			

With the exceptions noted above, all legal child care providers are eligible to participate in the child care certificate program. A description of the various types of legal child care providers available to families is included in Tables IIa and b on page 9.

The child care certificate serves as an agreement between the parents, the child care provider selected by the parent, and DHS. The form is prepared when the hours of care, the rate of payment, the fees, and the services to be provided have been determined and the parent has selected a child care provider. The certificate is prepared at least annually, or when the eligible parent selects a different child care provider, or there is a change in circumstances that requires a change to the certificate.

Although providers are not required to "enroll" in the certificate program, home-based providers who are exempt from regulation must complete and sign a "Payment Application For Nonregistered Providers" form. This form states that the provider has read and is complying with the minimum health and safety requirements for unregistered day care homes. The form also requests the provider's name, address, birth date, social security number, as well as the names, ages, and social security numbers of any other adults and children living in the home.

Regulating and Monitoring Providers

The Iowa Department of Human Services (DHS) is responsible for regulating most child care providers. (Exceptions to this policy are noted in Tables IIa and b, on page 9, 9.) Day care consultants in the DHS regional offices are responsible for licensing and monitoring child care centers. The centers are monitored annually, as well as upon receipt of a complaint.

Staff in the DHS county offices are responsible for registering and monitoring family and group day care homes. These homes are to be visited when compliance with minimum requirements has been questioned or in regard to a complaint. Twenty percent of all registered homes are to be visited each year. Interviews with DHS staff indicated that, due to staff shortages, few county offices are able to comply with the requirements for visiting registered homes.

Intake and Eligibility Determination

DHS does not have a single point of entry for families seeking child care assistance. As Table I indicates, the staff responsible for intake and eligibility determination vary according to the funding stream for which a family is applying. Staff in the Services unit of local DHS offices are responsible for assisting families who are applying for child care assistance under the following funding streams: At Risk Child Care (ARCC), Child Care and Development Block

Table IIa

Regulated Child Care Providers

Provider Type	Description
Child Care Center (Mandatory License)	A facility providing child day care for seven or more children, on a regular basis, for less than 24 hours per day.
Preschool (Mandatory License)	A child day care facility which serves children ages three to five for periods of time not to exceed three hours per day. Preschool programs are designed to help the children to develop intellectual skills, social skills, and motor skills, and to extend their interest and understanding of the world around them.
Group Day Care Home (Mandatory Registration)	A facility (typically a private home) providing care for more than six but less than twelve children, with not more than six children at one time who are not regularly in school full days.
Family Day Care Home (Voluntary Registration)	A private home which provides child day care to six or fewer children, including the provider's own children who are not regularly in school full days.
Child Care Administered by a Public or Private School	Any program administered by a school system approved by the Department of Education must also meet DHS child care licensing requirements.

Table IIb

Non-Regulated Legally Exempt Providers

Provider Type	Description
Family Day Care Home (Unregistered)	A private home which provides child care to six or fewer children, including the provider's own children who are not regularly in school full days.
In-Home Child Care	An adult caretaker who regularly provides care in the child's own home for a period of less than 24 hours a day.
Child Care Provided by A Relative	A relative of the child receiving care, other than the child's own parent or guardian, who regularly provides child care. Care must be provided in the child(ren)s home or in the residence of the caregiver for a period of less than 24 hours a day. Relative care may not be provided by a member of the eligible family's public assistance unit.
Child Care Provided on Federal or Tribal Property	Iowa code requiring child care to be regulated does not apply to federal or tribal property. Providers located on such property must comply with standards imposed by these jurisdictions.

Grant (CCDBG), Social Services Block Grant (SSBG) and State Child Care Assistance. Income Maintenance (IM) staff are responsible for notifying families that they are entitled to the IV-A child care disregard or Transitional Child Care (TCC). Food Stamp Employment and Training staff are responsible for informing families that they are entitled to Food Stamp Child Care. Families who are participating in PROMISE JOBS learn about child care entitlements from three different workers: their income maintenance caseworker, staff in Job Service, and staff at the Job Training Partnership Act (JTPA) office.

The forms, policies and procedures also vary among the programs. Thus, parents and/or providers who participate in all of these subsidy programs often have to deal with multiple forms and conflicting policies.

As a recipient's status and eligibility changes, a family may have to contact staff in several different DHS work units or agencies in order to apply for continued child care assistance. At times, a family may be eligible for more than one funding stream, and may need to speak with several different staff people in order to apply for all of the child care services for which they are eligible or entitled. An employed public assistance recipient, for example, is entitled to the child care disregard (administered by IM staff), is also eligible for child care assistance under CCDBG (administered by Services staff), and, in addition, may want to volunteer for PROMISE JOBS (administered by a contract agency[3]) in order to receive child care assistance.

The specific differences in policies and procedures among the various funding streams will be discussed in detail below.

Waiting Lists and Service Priorities

Although families who are entitled to child care assistance may not be placed on a waiting list, waiting lists are maintained for all capped funding streams. DHS was in the process of revising its waiting list policy at the time this report was prepared. Prior to these revisions, a full eligibility determination was completed on all families applying for child care assistance and, if funds were not available, these families were placed on a waiting list in order of the date they applied for assistance. Eligibility was capped at 155% of poverty. On June 1, 1993, there were approximately 7,400 children on the waiting list.

Early in 1993, legislation was passed which required DHS to terminate all families from the waiting list and, on June 30, 1993, to begin a new process of enrolling and prioritizing families. Effective July 1, 1993, eligibility for capped child care funding streams is to be

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[3]DHS contracts with private, non-profit agencies to administer the JOBS program. PROMISE JOBS contractors are typically the same agency which administers the Job Training Partnership Act (JTPA) employment and training program.

limited to families with incomes equal to or less than 100% of federal poverty guidelines. (DHS has, however, been given authority to raise eligibility levels to as high as 75% of the state median income if, after October 1, 1993, funds become available to do so.) The legislature also established a set of service priorities, which are as follows:

1) families who are at or below 100% of the poverty level with a child under five years of age in which the parents are employed at least 35 hours per week;

2) families who are participating in a JOBS program with a child who is not eligible for JOBS child care funds;

3) parents under the age of 21 who are either employed full-time or part-time, or are participating in an approved training program, or are enrolled in an education program;

4) families who are providing foster care;

5) families who are at or below 155% of the poverty level who have a special needs child;

6) families who are receiving AFDC, who are participating in an approved training program, and who are named on the JOBS waiting list;[4]

7) families who are at or below 100% of the poverty level who have a child under five years of age and who are employed part-time.

In response to the legislation, DHS promulgated emergency regulations, effective July 1, 1993, which establish the new eligibility guidelines and priorities. Families who were receiving assistance at the time the regulations were passed are permitted to continue to receive assistance based on the previous income eligibility guidelines. All waiting lists were terminated on June 30, 1993, and DHS staff were directed to accept applications and begin a new waiting list for only those families in priority group one, in sequence of when the application was date stamped in the county office. The regulations indicate that when adequate funds become available, applications will be taken for families in priority group two, and that this process will be followed when funds become available to serve families in subsequent priority groups.

The regulations further stipulate that before new families are accepted in to the subsidy system, available funds must first be used to continue services to families who are currently

[4]It is important to note that although the legislature has identified this group as priority #6 on the child care subsidy waiting list, courts are increasingly ruling that these clients are *entitled* to child care assistance, and therefore cannot be placed on a waiting list at all.

receiving child care subsidies and to serve families who have protective child care needs. In addition, families who have received TCC for twelve consecutive months[5] are to be authorized for continued child care assistance and not be placed on the waiting list at all.

From the perspective of public assistance recipients and other low-income families seeking to continue or obtain child care assistance, the current DHS system is complex and fragmented. As the case study on page 14 illustrates, the recently enacted waiting list and intake procedures arelikely to further exacerabate this problem.

Reimbursement Rates

At present, DHS does not have a consistent policy with regard to child care provider reimbursement rates. DHS reimbursement to child care providers varies according to the funding stream used to pay for the care and, in some cases, contractual agreements between the department and the child care provider. Until recently, Purchase of Service (POS) contracts were written with most child care providers, and a reimbursement rate was established for each provider.

When the Family Support Act passed, DHS was required to reimburse providers who serve families participating in JOBS and TCC at the rate they charge private, fee-paying families, so long as this rate does not exceed local market rates. DHS was directed to establish market rate ceilings, capped at the 75th percentile. On the basis of a survey, in October of 1990, DHS established market rate ceilings in eight regions of the state.

In 1991, funds from two new federal child care funding streams--At Risk Child Care (ARCC) and the Child Care and Development Block Grant (CCDBG)--became available. Regulations accompanying these funds also included provisions requiring parental choice and market driven reimbursement. In order to comply with these requirements, a new child care certificate (voucher) program was established by DHS in October of 1992. Providers who were newly entering the child care certificate program were made eligible for reimbursement at their private rates, up to the regional market rate ceilings established by DHS for the PROMISE JOBS program. As POS contracts have expired, these providers have been shifted to the certificate system; their reimbursement rates have, however, remained at the POS level.

Providers who serve the children of employed AFDC recipients who receive child care assistance under the Title IV-A Child Care Disregard do not receive direct payment from

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[5]Eligibility for TCC will be extended to 24 months if the federal waiver is approved.

A Case Study

Ms. Andrews was receiving public assistance and at home with her nine month old son, John, and two year old daughter, Marie, when she found a job working ten hours a week at a local department store. Her Income Maintenance worker recommended that she apply for child care assistance from the DHS Services Unit.[6] Ms. Andrews applied, and was determined eligible. A neighbor, who cares for four other children, agreed to care for John and Marie while Ms. Andrews worked.

Over the next two years Ms. Andrews gradually increased the number of hours she worked, to the point that she is now working full-time. She recently received a promotion and a pay increase.

While at DHS for her six month recertification, Ms. Andrews learns that her earnings have risen to a point that she is no longer eligible for public assistance, and therefore ineligible to receive child care assistance from the Services Unit. The social worker explains that Ms. Andrews should now make an appointment with her Income Maintenance worker and apply for Transitional Child Care (TCC).

Ms. Andrews takes time off work to go down to DHS and submit an application for TCC. While in the waiting room she notices a sign that says "No Child Care Funds Are Available" and begins to get nervous. After reviewing her application form, the IM worker informs Ms. Andrews that the sign doesn't apply to TCC, *these* child care funds *are* available. But there is one problem: TCC can't be used to purchase unregulated care, and Ms. Andrews' child care provider isn't registered. In order to continue to receive a subsidy, she must find a licensed or registered provider.

Ms. Andrews is worried, and asks many questions: Will TCC pay for her existing provider while she looks for a new one? Will they pay for the past two weeks of care--the time that has lapsed between her PA termination and submitting the TCC application? All this is just too complicated. She wanted to set a good example for her children and get off welfare, but maybe she should just get her work hours reduced and go back on public assistance.

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[6]As an employed public assistance recipient, Ms. Andrews is entitled to the child care disregard, which is administered by the DHS Income Maintenance Unit. She may, however, apply instead for direct child care assistance through the Services unit.

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DHS, but must request payment from the parent. Child care assistance available under the IV-A Child Care Disregard is capped at $200 per month for each child under the age of two, and $175 per month for each child two years of age or older.

Reimbursement rates to providers who serve families participating in the Food Stamp Child Care program are capped at $160 per month per child.

Payment for Absences or Breaks in Service

Policies regarding payment for absences or breaks in service also vary among the funding streams, and in some cases, are very unclear. Providers who participate in the certificate program may receive payment for up to four absences per month,[7] so long as they charge private, fee-paying families for absences as well. DHS does not make reimbursement available for breaks in service.

The PROMISE JOBS provider manual indicates that payment may be made for periods of absence, such as semester breaks, not to exceed thirty days, when this payment is required by the provider as a condition of maintaining the child care slot. The manual is unclear about whether payment for absence is also available when the child is ill or unable to attend child care for other reasons, and, if so, whether there is a ceiling on the total number of absences permitted in a month or year.

When asked, staff in the central office verified that child care reimbursement under PROMISE JOBS is available for all absences, and that a ceiling on the total number of absences allowed had not been established. The PROMISE JOBS contractor staff we spoke with also indicated that they follow the provider's written policy with regard to absences, and will pay for all absences if the provider requires payment from the private market. However, our provider interviews indicated that this was not a consistent policy. Several providers told us that DHS would not pay them when the parent failed to show up for their PROMISE JOBS education or training program, even if they took their child to day care. Others said that DHS wouldn't reimburse them for absences at all, or only in cases where the parent failed to provide 24 hours notice.

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[7]Effective July 1, 1993, reimbursement will be available only for those absences which occur on days when the child is regularly scheduled to attend the program. (e.g. If a child is regularly scheduled to attend a program for four days a week, the provider could not request reimbursement for the fifth day as an absent day.)

In general, our interviews revealed that providers are confused with regard to absence polices, and that even when the policy appears to be clear, it is applied inconsistently. Several of the providers who serve a large number of subsidized families said that they lost a significant

amount of money on absences because the children they served (especially those in protective services, foster care, and the children of teen parents) were absent frequently.

Method of Payment

The method DHS uses to pay child care providers is fairly consistent across funding streams. In most cases the department sends reimbursement for its portion of the child care costs directly to the child care provider. Parents are typically responsible for paying a portion of the child care costs (a further discussion of fee policies is included below) and the provider collects this family fee directly from the parent or guardian.

The one exception to this policy occurs when the parent or guardian is an employed AFDC recipient who is using the child care disregard funding stream. Regardless of the type of child care used by this family (e.g. center-based, registered or non-registered family child care, or in-home care) the parent or guardian is responsible for paying the child care costs themselves, requesting a statement of cost or receipt, and submitting this documentation to their DHS income maintenance worker in order to have the child care disregard applied when calculating their monthly assistance budget.

AFDC budgets are calculated retrospectively. This means that eligibility for public assistance is based on a family's earnings during a one month period which occurred two months prior. In other words, the assistance grant a family receives in March is based on January earnings. As a result of retrospective budgeting, it effectively takes at least two months for the child care disregard to increase the size of a recipient's monthly benefits.

To help ameliorate the effect of retrospective budgeting, the family may elect not to use the child care disregard in calculating eligibility for AFDC and instead apply for a child care subsidy from the DHS Services unit. In this case, their child care would be paid for by CCDBG, SSBG or state general funds, rather than IV-A. Unfortunately, however, due to fiscal constraints very few new families have been served under these funding streams for the past year. In many areas of the state, the child care disregard is currently the only form of assistance available to employed AFDC recipients.

Parent Fees

Fee policies also vary, based upon the funding stream used to pay for the child care. Families who receive subsidies from CCDBG, ARCC, SSBG, TCC and state general funds are required to pay a portion of the cost of child care, based on a sliding fee scale established by DHS. Fees range from approximately ten cents per hour for a family of four with a monthly income of $1,210 to approximately eighty cents per hour for a family of four with a monthly income of $1,861.[8] Only those families who are receiving child care subsidies under PROMISE JOBS or as part of a protective services plan are exempt from family fees.

A completely different fee policy has been established for families who receive child care assistance under the IV-A child care disregard. These families are required to pay the difference between the $175/$200 per month disregard ceiling and the actual cost of the child care. Thus, an AFDC eligible family of four (i.e. with an income at or below 100% of poverty) would be required to pay a family fee of four cents per day if their child care costs were subsidized by CCDBG, ARCC, SSBG, TCC or JOBS, regardless of the type of care they selected or the number of children needing care. But if this same family were receiving child care assistance under the Title IV-A child care disregard, they could be required to pay as much as $310 per month per child for full time care in a Des Moines child care center or $142 per month per child in a Des Moines family child care home.[9]

The problems posed by the current inconsistencies in payment methods and parent fees are felt most acutely by employed public assistance recipients. The case study on page 13, 17 provides an example of what can happen when a recipient moves from one child care funding stream to another.

Before discussing the importance of developing an administrative and fiscal management structure which support seamless funding, it is necessary to discuss the principles used to maximize federal funds for child care.

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[8]With the exception of those who receive subsidies from the Transitional Child Care funding stream, families with incomes at or below the federal poverty level are not charged a parent fee. The federal government requires that states charge parent fees to all families receiving TCC, even if the fee is nominal. In order to meet this federal requirement, DHS has established a fee of four cents per day for families who are receiving TCC and have incomes at or below poverty.

[9]These cost estimates were based on the 10/90 DHS market rate ceilings, and an assumption that the family received the full $200 per month disregard for a child less than 2 years of age.

A Case Study

Ms. Jones was on public assistance, at home with her two preschool age children, ages 7 months and 3 years, when she was called in to participate in the PROMISE JOBS program. After an assessment, she agreed to attend an educational program to obtain a high school diploma, and arranged for her sister, who had just been laid off her job, to care for the children while she attended school. PROMISE JOBS paid for her child care expenses.

After attending classes for two weeks, her sister was called back to work and could no longer care for the children. Each day Ms. Jones made temporary arrangements for the children: one day she left them with her elderly mother, another with her cousin. Once she could find no one and had to miss class. Then a classmate told her about a day care center located near the school. Ms. Jones visited the center and met with the director, who said that she had space for the children but that Ms. Jones would have to contact her PROMISE JOBS worker to authorize payment. Ms. Jones does so, the papers are completed, the children enrolled, and PROMISE JOBS pays the day care center fee of $150 per week for both children.

A year later Ms. Jones "graduates" from PROMISE JOBS and gets a job as a food service worker, making $4.65 per hour. Her PROMISE JOBS worker informs her that in order to continue to receive child care assistance, she must now apply for Transitional Child Care (TCC) through her IM worker. Ms. Jones only gets a half hour for lunch, but for several days in a row she uses this time to call her IM worker and ask about applying for TCC. She finally gets through, but the worker tells her that child care funds aren't available. Ms. Jones calls the PROMISE JOBS worker back, who insists that the caseworker is confused, and tells her to call back and specifically request TCC. Ms. Jones persists. In the meantime, she has received a bill from the day care center for one week of child care.

After several weeks of mounting child care bills and many calls, Ms. Jones learns from her IM worker that although she is working, she is in fact still eligible for public assistance and therefore not eligible for TCC. To help her pay for child care, she will be allowed to keep $375 of her monthly earnings ($200 for a child under 2 and $175 for a child over 2) and still maintain eligibility for public assistance. Each month Ms. Jones must send her child care bill to the IM worker, who will then readjust her assistance benefit. The IM worker explains that this child care "disregard" will increase her assistance check, but that it will take two months for the increase to show up. She also explains that the day care center will no longer be paid directly by DHS; Ms. Jones will be responsible for paying the child care costs.

Ms. Jones is devastated. She just got a job; she already owes the day care center nearly $500, and she doesn't have the money to pay the bill. Even if she can convince the center director to wait a little longer to be paid, she won't ever receive enough money in her public assistance check to pay the full child care bill. Now she'll have to take the kids out of the center and see if she can find someone who won't charge too much to watch them. Or maybe she should just quit her job and go back on welfare.....

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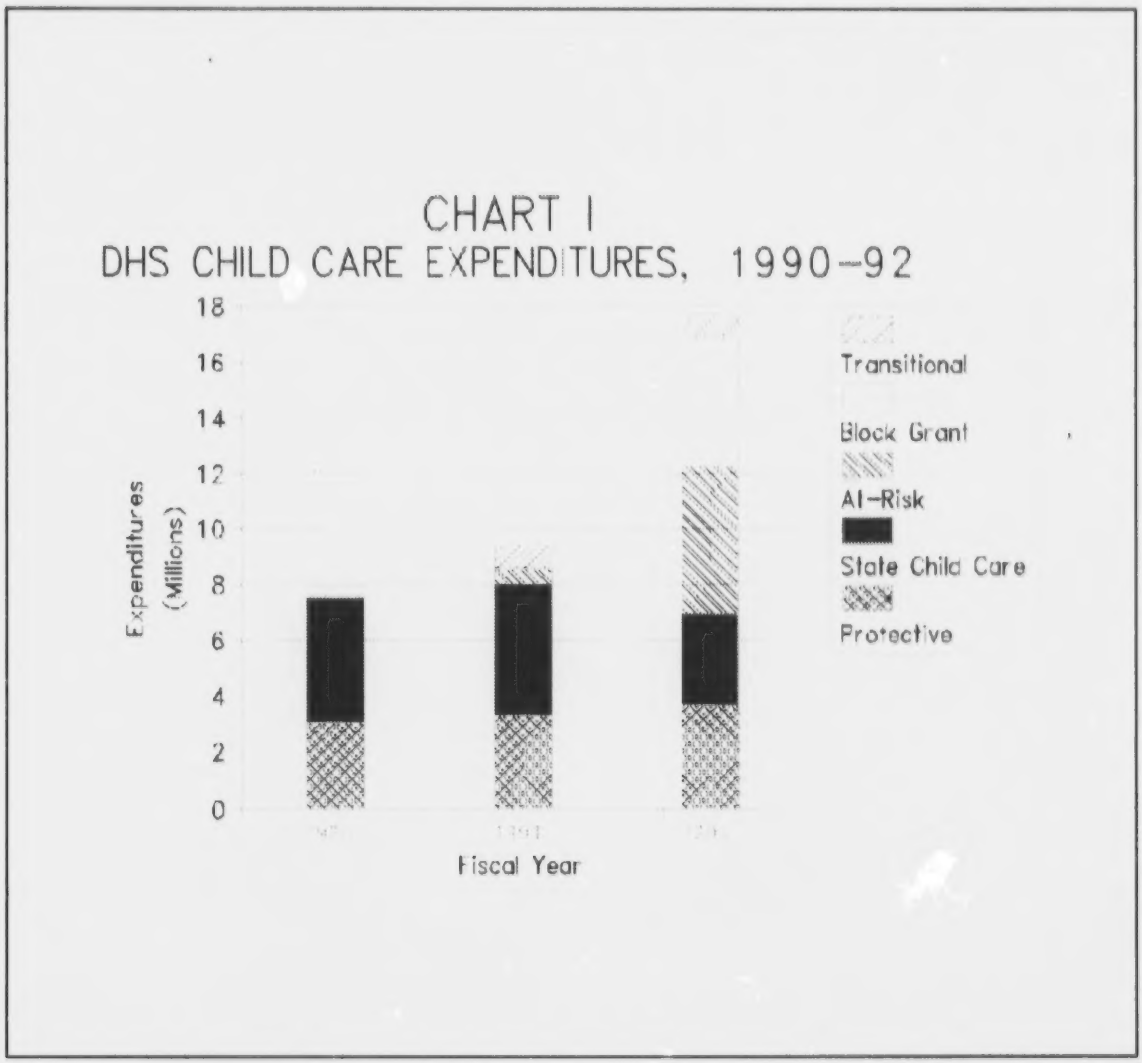
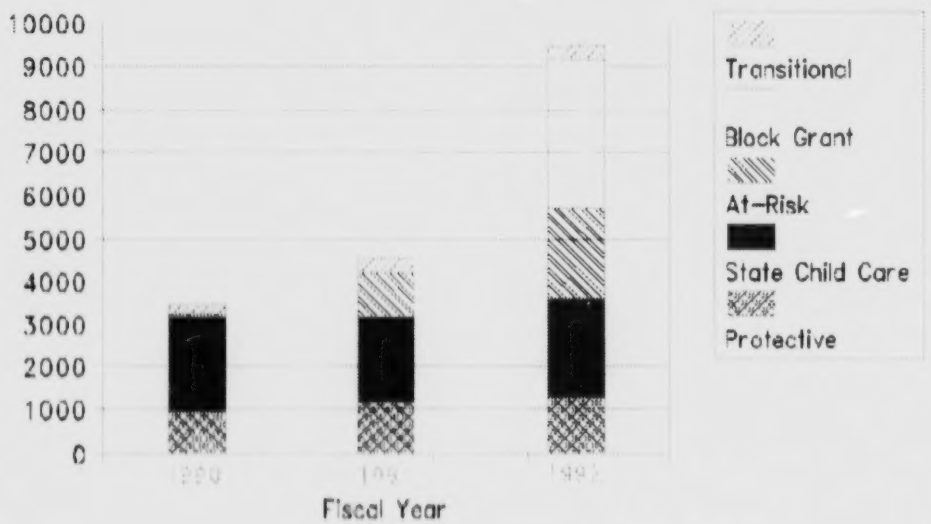
Fiscal Management

Like most states, DHS has used the recent increases in federal child care funds for two related purposes: to decrease the amount of child care funded solely with state dollars, and to satisfy the growing demand for child care subsidies. Achievement of both purposes has been possible because a portion of the state monies which had traditionally been used for state funded child care is now used to match federal dollars, making each state dollar more valuable. Both the shift from purely state to combined state/federal sources and the overall increase in funding for child care are shown in Chart I, below. The figures are derived from the Bureau of Adult, Children and Family Services FY94 budget request.



In FY90, total expenditures for the five child care subsidy programs included in the state's child care budget equaled $7,602,051.[10] As Chart I indicates, in FY91 the total budget jumped 24%, to $9,444,775, and then increased by 89% in FY92, to $17,811,231. As Chart II, below, indicates, DHS served an average of 3,232 children per month in these programs in FY90, but by FY92 the number had jumped to 9,505. The funding increase of 134% between FY90 and FY92 produced an increase in the average number of children served of 197%, despite the fact that the costs for each child had risen in most of the programs.

CHART II
CHILDREN SUBSIDIZED BY DHS CHILD CARE



[10]The five programs are: Protective Child Care, State Child Care Assistance, At-Risk Child Care, Child Care and Development Block Grant and Transitional Child Care. Comparable data on expenditures and number of children served in JOBS, IV-A Disregard, and Food Stamp Child Care was not available.

The dramatic growth in federal funds to support child care for income eligible clients has clearly ended. Moreover, in Iowa the demand for child care subsidies has so outstripped the current funding that in FY93 the agency incurred a substantial deficit, even after closing intake to new income eligible clients in the second month of the fiscal year. Yet the demand for subsidized child care continues to grow. State funds available for child care subsidies in the FY94 budget equal $9,413,296, which translates into about $18,571,170 in total funds when matching federal funds are accounted for.[11] Although final expenditure figures for FY93 are not yet available, total expenditures to date have already surpassed $20 million. Unless additional federal reimbursement is made available, DHS either will continue to operate at a deficit, essentially increasing the state funds put into child care, or will have to reduce the number of children and families served.

In these circumstances, the type and level of fiscal management within the agency becomes extremely important, and DHS staff have developed some standard procedures which guide agency practice. Two are of particular importance: the determination of the client's eligibility category and the method of projecting costs. It is also important to discuss the current and future role of automation in fiscal management.

Determining the Client's Eligibility Category

The DHS Services unit is responsible for administering four child care funding streams: Protective Child Care, State Child Care Assistance, At-Risk Child Care and Child Care and Development Block Grant. Subsidy funds from each of these sources are allocated to each of the DHS regions, and within each region, to each county. As part of the intake process, and within the limits of these allocations, the Services caseworker determines the funding stream most appropriate for each client. This determination becomes the decision as to how the family's child care costs will be reimbursed at the state and federal level.

Clearly some clients could fall into more than one eligibility category. One of the principles by which DHS currently makes decisions about which funding stream to charge involves the use of state funds prior to the use of federal funds. This use of state funds ahead of the application of federal funding sources is obvious from the pattern of expenditures across a single year. At the beginning of FY93, i.e., in August of 1992, State Child Care Assistance constituted 44% of all expenditures, while CCDBG made up only 6.3%. Later in the same fiscal year (March of 1993) CCDBG accounted for 55.6% of all expenditures, while the proportion funded under State Child Care Assistance had dropped to 3.3%.

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[11]The state funds available for JOBS Child Care, IV-A Child Care Disregard and Food Stamp Child Care are not included in this analysis because they appear in a different part of the budget. Additional federal funds are probably also available through the Social Services Block Grant. As will be discussed below, however, SSBG funds may be viewed as state funds because they are not matched and can be used for a variety of purposes. Thus, every SSBG dollar used for child care is a dollar which either must be replaced by state funds in another program or which reduces the level of service available in another program.

The reason for this counter-intuitive procedure is simple. State funds cannot be rolled over to another year, while federal funds often can. In fact, the discrepancy between the state (July to June) and federal (October to September) fiscal years gives the agency additional room for flexibility in the use of different types of funds. In addition, the practice of using state funds first seems consistent with the budget language which appears to require that a specified amount of money be used in State Child Care Assistance, as opposed to being used as match for federally funded programs.

Cost Projections

In addition to its procedures for determining how individual client families will be subsidized, DHS also devotes a substantial effort to projecting costs and opening and closing intake based on the results. It is in large part due to these efforts that intake was closed so quickly at the beginning of FY93, a move which reduced the deficit from what it might have been had intake remained open.

There are at least two sources of cost projections used within the agency, one developed according to traditional statistical techniques and one involving a simple benchmark analysis. The former uses DHS' computer data on expenditures and children served and creates a variety of projection techniques, including moving averages and least squares estimation, in order to produce monthly projections of future expenditures. The other method involves an examination of the claims arriving in the agency each month against two benchmarks: the previous month's claims and the average monthly amount which should be claimed each month, given the appropriation for child care.

Each of these methods has its virtues and each has its blind spots. The statistical techniques are based on aggregate figures and assume that the future will look much like the past. Over the long haul, the statistical procedures are likely to be quite accurate, especially in environments where the trends flow in a single direction. What they cannot do is take immediate account of sudden changes in policy and available funds. Thus, when the program was growing dramatically because of the increase in federal funding, the statistical projections fairly consistently underestimated future expenditures. Likewise, during FY93, after intake for income eligible clients had been closed, these projections were about equally consistent in overestimating future expenditures, because the data included the large growth which had occurred in the last couple of years.

The benchmark analysis can be much more sensitive to quick changes. The decrease in claims which followed from the closing of intake appeared very shortly thereafter and signaled DHS administrators that they were headed in the right direction. On the other hand, these projections also caused a panic toward the end of the fiscal year, because of a one-month rise in the claims. The problem here is that the claims are analyzed as they come into the agency. The analysis is actually an analysis of cash flow, not an analysis of expenditures, and thus can be misleading. The benchmark analysis tends to show, for example, that claims

are nearly always higher when a month includes five claiming weeks. Moreover, there appear to be months in which providers are simply slower in submitting claims, artificially reducing the following month's figures and inflating those of the subsequent month.

Use of Automation

The projection methodologies which are used by DHS represent reasonable attempts to use available information to make policy decisions. Unfortunately, the amount and type of information which is available provide few mechanisms for improving the situation. Computerized information is maintained within the Services Reporting System (SRS), a generic computer system built for all social services, not merely for child care. Its basic purpose is to ensure that payments are made accurately. In that sense SRS is typical of mainframe systems which have been built for social service agencies around the country. They function well as fiscal tools, but provide little in the way of information which would assist in making policy decisions.

DHS has, however, begun experimenting with a new system which would provide some improvement in the data available to the agency.

The focus of this effort has been the development of an on-line invoice. One of the sources of administrative problems in the current system, and probably the primary source of delayed payments, is the frequency of errors which occur in the writing of provider invoices. If the provider's identification number, or the funding source code, or some other item unrelated to the amount of the invoice is written incorrectly, current edits on the system will send the invoice back to the caseworker for correction. Because all of this is done through a batch process, errors are noted well after data entry occurs. By the time that the invoice has been returned to the caseworker in the county office and corrected, the payment has been significantly delayed.

The use of on-line invoices will not stop the occurrence of errors, because providers would continue to submit paper invoices to the county. But most of the errors would produce an "error message" or system edit and could therefore be corrected immediately upon data entry by the caseworker. As a result, many payment delays could be avoided.

At the present time, the on-line invoice appears to be a genuine step forward in improving the efficiency of the administration of child care subsidies. What is missing from these efforts, however, is any feature which would create greater flexibility in the determination of each child's eligibility category, and therefore greater flexibility in the use of the available funding streams. For this to occur, and for the agency to maximize its federal funds beyond the limits of what it now does, will require that the beginning of the process, the client intake, be automated and that the invoice be connected to the intake information.

Grants and Contracts

DHS has developed several grant programs which extend the availability of subsidized child care and support a variety of quality initiatives, including provider training, start-up and expansion. Each of these initiatives is discussed below.

"Wrap Around" Grants

$674,180 of the state's FFY 1991 CCDBG funds were spent to support grants to sixteen programs which provide early childhood care and education services to children enrolled in Head Start, Chapter I preschools, Department of Education At-Risk programs, or Early Childhood Special Education programs. The grants were designed to allow these part-day, part-year programs to extend the length of their program day and year. Social services, parent involvement and family development activities, health, dental, nutrition, special needs, and mental health services were funded with Head Start or Department of Education funds. Child care funds were used to support any remaining costs related to extending the day. Seven of the participating programs were Head Start centers, four were DOE At-Risk programs, one was an ECE Special Ed program, two had funds from both Head Start and DOE At-Risk, and one had funds from all four sources. Approximately 196 children were served, at a cost of $2,500 per child.

School Age Child Care Grants

A combination of FFY 1991 Dependent Care Grant ($156,734) and CCDBG ($674,180) funds were used to support start-up and expansion grants for school age child care. Grant funds were available to support the cost of: direct care staff, staff training, equipment, materials, books, rent, utilities, and transportation for children's activities. Construction or modification of the facility was not an allowable cost, unless these modifications were for the purpose of serving children with special needs.

Ninety-four programs were awarded grants of up to $10,000 each. The grants may be renewed for a second year if they can demonstrate a continuing need.

Child Care Resource and Referral Services

In combination with funds from the Dependent Care Grant ($51,569) and state funds ($663,931) a significant portion ($409,258) of the quality funds available under the CCDBG in FFY 1991 were spent to develop and support a statewide system of child care resource and referral (CCR&R) services. Designed to help coordinate services and essentially serve as an "infrastructure" for the child care delivery system, these agencies provide a variety of services to parents, child care providers, and the community, including:

- promoting consumer education and parent choice in early childhood care and education services;
- maintaining a community-wide data base of child care providers and offering parent referrals;
- recruiting, training, and offering technical assistance to new child care providers;
- documenting needs and trends in the child care delivery system and serving as a resource for planning; and
- leveraging additional child care resources through public/private partnerships.

The state has been divided into five CCR&R service delivery areas, with one lead agency and two to five satellites or subcontracts in each area.

Training Grants

Grants for a variety of child care provider training activities have also been made available. $197,620 of the 1991 CCDBG funds was spent to support eleven training projects sponsored by several different entities, including community colleges, CCR&Rs and Cooperative Extension offices. Priorities for the grants were established by the Provider Training Subcommittee of the Statewide CCDBG Advisory Committee, which recommended that the grants focus on: infant care, special needs child care, school age child care, and rural child care. The Subcommittee also recommended grants which addressed the orientation of new providers and master level needs of advanced providers.

Future plans include training projects for early childhood care, school age care and center provider orientation. In addition, funds will be available for continued support for infant, special needs and basic care training throughout the state.

Coordination With Other Funding Sources

There are additional funding streams which are administered by other state and federal agencies which can be used to support early childhood care and education services. A discussion of some of these funding streams follows.

Head Start

Head Start is a federally funded program for preschool age children from low-income families. Ninety percent of the families served by the program must have incomes at or below the federal poverty level, and at least ten percent of the children served must be professionally diagnosed as disabled. Head Start programs provide preschool, social, health, and nutritional services. Parents are very involved in the program and are offered a variety of parental education and career development services.

In FFY 1992, Iowa received $16,084,242 in federal Head Start funds to serve 5,266 children in 74 counties. 73% of these children were four years old and 20% were three years old. The average cost per child was $3,054.

Approximately 89% of the children who attend Iowa Head Start are served in part-day, part year programs. The remainder are served in full-day, part year programs (2.4%); home-based models (8%), or other program variations (less than 1%). A majority of the programs (73%) are administered by Community Action Agencies.

There is currently no state-level entity which administers or supervises Head Start programs in Iowa. The state has, however, recently been awarded a Head Start Collaboration Grant, which will allow the Department of Education to hire a person to serve as liaison between Head Start and the state.

State and Federal Funds for Special Education

Since 1980, Iowa has provided free special education and related services to children with disabilities from birth to twenty-one years of age.[12] These services are administered by the state's 15 Area Education Agencies (AEA). Each AEA maintains an early childhood special education (ECSE) component within the Special Education Division which has responsibility for a range of outreach, assessment, program, and monitoring activities. This includes the

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[12]The special education mandate [Iowa Code 281.2 (1)] was enacted on July 1, 1974, and was fully in effect by September 1, 1980.

development of an Individualized Education Program (IEP) for each child, which ensures that the child is placed in the least restrictive environment.[13]

Early childhood special education activities are funded from a variety of sources. Federal funds available under Part B of the Individuals with Disabilities Education Act (IDEA) are a primary source. Young children served in center based programs also generate state and local school funds based on the same weighted formula as children of mandatory school age. Preschool children may generate 2.35 or 3.52 times the local per pupil cost for full time placements. In addition, federal Chapter I Handicapped funds are utilized for children birth through age two.

Weighted or federal funding sources may be used to pay tuition, transportation or other necessary costs for preschool children who are integrated into community based preschool programs. These sources may also be used to fund any of the following, so long as they are specified in the child's IEP: non-prescriptive adaptive equipment, additional personnel required to maintain the child with a disability in a community-based early childhood center, special education personnel to facilitate and monitor the IEP, support services determined by the IEP team, and substitutes or overtime to enable personnel to participate in staff development activities that are specific to the needs of special education students.

Home instruction teachers, who primarily serve the birth to age two children and their families, are included within the AEA early childhood special education division. The AEAs also provide screening, diagnostics and appropriate therapies to children in Head Start, and a cross-referral system between the two agencies has been developed.

On December 1, 1991, 963 children birth to age two, and 5402 children ages three to five were receiving special education and related services in Iowa. This count represents approximately 5% of the total Iowa census of children from ages zero to five years and has remained relatively stable for several years.

Part H of IDEA

Part H of the federal Individuals with Disabilities Education Act (IDEA) is intended to help states plan and implement systems of early intervention services for infants and toddlers with disabilities, and provides discretionary grants to states to help support these activities.

Since Iowa has had a system of early intervention services for all children, birth to age twenty-one, in place for more than thirteen years, Part H funds were not needed to develop a system. These funds have been used instead to enhance the existing early intervention system

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[13]Iowa Guidelines for Least Restrictive Environment for Early Childhood Special Education (Draft, January 7, 1993) indicate that the "general education or natural environment" for preschool children with disabilities is the setting where activities, instruction, therapies, and remediation naturally occur for children of similar age without disabilities.

for infants and toddlers, especially in the area of interagency collaboration, training, research, and evaluation. In addition, Part H funds have provided continued support for ongoing implementation of specific components related to infants and toddlers, as well as the activities of the Iowa Council for Early Intervention Services.

Using Part H funds, DOE has provided (or arranged for the provision of) in-service training on a host of early childhood integration issues. Much of this training has focused on staff development, and emphasized the skills needed to facilitate social interaction, design classroom environments, and develop IEPs for children to be successful in integrated settings. Plans for FY 93-94 include: developing program evaluation and data collection initiatives, expanding M-Tykes training (video training which focuses on serving children with disabilities in integrated settings) and revising Iowa Rules of Special Education to remove some of the barriers to integration.

DOE At Risk Programs

In 1988 the Iowa General Assembly established the Child Development Coordinating Council (CDCC) to promote child development services to young children at-risk. The Council established two types of programs for young children and families at-risk: 1) child development programs for preschool age children, and 2) parent education and support programs for parents of children birth to age three. Both of these programs are administered by staff from DOE.

At-risk is defined as any child who, because of physical or environmental influence, is at-risk of entering kindergarten lacking the development and experience necessary to succeed in school and life. This may include any of the following conditions: low-income (below 125% poverty), developmentally delayed, born at biological risk, in foster care or homeless, child of a teen parent, or other such circumstances. In FY 1992-93 CDCC served these children through continued funding of the following programs:

- 56 programs serving three and four year old children who are at-risk. These programs are located in public schools, Head Start programs, and non-profit licensed child care centers.

- 10 programs serving three through five year olds who are at-risk. These programs are located in public schools.

- 12 parent education and support programs in agencies (public schools, Head Start, child care) serving parents of children, birth through age three, who are at-risk.

DOE staff provide technical assistance and on-site visitation in coordination with the Early Childhood Network in area education agencies. These staff also work closely with such organizations as the National Academy of Early Childhood Programs Accreditation Project

(NAECP) and the National Association for Education of Young Children (NAEYC) to assist programs in obtaining accreditation status. Currently 17 CDCC programs have received NAEYC accreditation.

In 1992-93 the preschool child development programs served more than 1300 children, at an average cost per child of $3,800 and a total cost of $4.625 million. The parent education programs served an estimated 1,000 parents, and a total cost of $725,000.

Discussion

In consultation with DHS staff and the project advisory committee, five goals for this project were identified, which are as follows:

1) To identify the regulations and procedures which must be revised in order to achieve a more consistent and "seamless" child care delivery system;

2) To develop and define a child care subsidy system which is responsive to and driven by the child care market;

3) To develop a rate structure which supports a parent choice, market driven child care subsidy system;

4) To develop both long and short-term strategies to improve the management of child care funds and maximize the use of all available federal, state, and local funds; and

5) To assist the department in achieving efficiencies in administering child care funds by identifying the functions which an automated intake and payment system must perform.

These goals cannot be viewed or discussed as discrete entities, but must be viewed as part of a whole. Each recommendation made in this report relates to another, and to multiple goals. The following discussion, therefore, represents an iterative process, with each part building on what preceded it.

Developing a "Seamless" Subsidy System

A seamless child care delivery system is designed to ensure that families receive continuous child care assistance even as their eligibility for various subsidy programs changes. Thus, a family who first receives child care assistance while on pubic assistance or participating in PROMISE JOBS would continue to receive child care assistance when they leave public assistance and enter the work force, and until such time as they no longer need child care or their income has risen to a point where they can be self-sufficient.

Developing a truly seamless child care delivery system is difficult. Four elements are key to the establishment of an effective system:

- a payment mechanism which allows funds to follow the child to whatever program is chosen;
- consistency in the rules, regulations, and procedures which govern the various funding streams;
- an administrative structure which supports continuity; and
- a fiscal management structure which has the capacity to encumber or otherwise reserve funds and can easily shift families from one funding stream to another based on the availability of funds and the most advantageous funding mix.

Each division of the Iowa Department of Human Services which is responsible for administering child care funds has established a voucher or certificate payment mechanism which allows funds to follow the child, so the first condition noted above appears to have been met. However, the policies and procedures which govern these voucher programs are not consistent, nor is there an overall administrative or fiscal management structure which supports continuity and allows funds to be maximized.

Inconsistent Policies and Procedures

Table III, on page 31, 31, indicates the areas where current rules, regulations, or policy directives are inconsistent, and makes recommendations for establishing a single set of polices and procedures for all child care funding streams. Establishing this sort of consistency will not only help to simplify the system for parents, providers, and subsidy administrators, but is an important first step in moving toward a seamless system.

Inconsistencies which exist in the administration of the Food Stamp Child Care program were not included in Table III because this funding stream is used so little it does not seem necessary or advisable to revise current policies and procedures. If, however, use of these funds increases significantly, it, too, should follow consistent policies and procedures.

Recommendation: **DHS should establish consistent policies and procedures for all child care funding streams, so that 1) consistent forms and procedures are used, 2) all funding streams may be used with all legal providers, 3) all providers are paid their private rate, up to the 75th percentile of the market rates, with rate supplements allowed for children with special needs, 4) policies on absences and breaks in service are consistent across funding streams, and 5) the child care disregard is eliminated. (See Table III, on page 31, 31, for a description of these changes.)**

Table III
Areas to Be Addressed in Establishing Consistent Policies and Procedures
for All Child Care Funding Streams

Issue	Inconsistency	Recommendation	Comments
Inconsistent forms & procedures for issuing vouchers & paying providers.	Four separate systems: • child care certificate (Services Unit) • TCC Voucher Agreement (IM Unit) • Income Disregard (IM Unit) • PROMISE JOBS Expense Allowance Authorization (JOBS Contractor)	Establish consistent forms and procedures.	See page 47 of this report for a more detailed discussion of streamlining administration of vouchers.
Inconsistent policies regarding which providers are eligible to accept vouchers.	TCC funds may only be used to purchase regulated child care; all other funding streams may be used to purchase any legal child care.	Allow TCC funds to be used to purchase any legal child care.	Current policy is a violation of federal IV-A Child Care regulations.
Inconsistent provider reimbursement rates	Three separate rate ceilings: • TCC & JOBS reimburse at private rate, up to 75th percentile market rate ceiling; • Providers with prior POS contracts remain at old POS rates; • $175/$200 monthly ceiling for child care disregard.	Pay all providers at their private rate, up to the 75th percentile market rate ceiling. Allow "rate supplements" for serving children with special needs.	See page 53 of this report for a more detailed discussion of unit rates.
Inconsistent policies regarding payment for absences	• 4 absence days per month allowed under CCDBG/SSBG/ARCC certificates; • Up to 30 day "break in service" allowed under JOBS; reimbursement also available for absence due to illness, etc.; • No written policies for TCC.	Establish consistent policies which allow for both absences and breaks in service in all funding streams.	
Inconsistent methods of payment	Employed public assistance recipients must advance their own money for child care & wait to be reimbursed; all other funding streams allow direct payment to provider.	Allow direct payment to provider under all funding streams.	This will require revising calculation of the child care disregard.
Inconsistent family fees	Same sliding fee scale for all funding streams except the IV-A child care disregard.	Use the same sliding fee scale for all funding streams.	

Maximizing All Available Child Care Funds

As noted earlier, the increasing demand for child care and the cessation of large increases in federal child care funds leaves DHS with only two options: it can find new ways to tap additional federal funds through existing sources or it can further reduce the number of families it serves. DHS has already made one move designed to increase the level of federal reimbursement available for child care. The agency has requested a waiver from the federal government to permit TCC clients to receive the entitlement for twenty-four months rather than the normal twelve months. The practical effect of this would seem to be to delay or even ultimately prevent the movement of TCC clients from this uncapped funding stream to At-Risk, CCDBG or State Child Care Assistance, all of which are capped.

The FY94 budget includes state matching funds for TCC in the total amount available for child care, and it gives priority to TCC clients for an additional $2.6 million included in the appropriation, should the waiver be approved. Assuming that the ultimate impact (perhaps not this year) of the waiver would be to double the dollars spent under TCC, total state funds would equal $701,924, rather than $350,962, and total expenditures would rise from $974,894 to $1,949,788. The overall effect, therefore, should be to increase the total amount available for child care subsidies by over $600,000.

For the current fiscal year, the $2.6 million provides needed relief to the DHS budget for child care. These state funds could, however, be much more useful than they will be, and so could large portions of the rest of the state fund appropriation, if both the Legislature and the agency viewed them in a different way. Just as caseworkers determine the funding stream from which the client should be reimbursed, the Legislature specifies how state dollars should be used. The results of this can best be seen by imagining what the impact of the TCC waiver would be if the $2.6 million had not been added to the budget this year.

The state budget clearly specifies the amounts of state dollars to be expended in Protective Child Care, State Child Care Assistance and Transitional Child Care. Once those amounts are deducted from the total appropriation, the remainder equals $1,916,697, presumably the amount needed to match the federal At-Risk dollars. Because, in the absence of the extra appropriation, the amount of state dollars to be used for additional TCC match must come from the same total appropriation, any increase in the amount needed to match federal TCC monies must be subtracted from the amount available for At-Risk Child Care. However, the federal matching rates for TCC and At-Risk are precisely the same. Thus, without additional state dollars to match the additional federal money which may become available under the waiver, every dollar of increase in available federal TCC money would be offset by a reduction in the amount the state can draw down in federal At-Risk funds, because of the lack of a state match.

Without the additional monies provided by the Legislature this year, the only way in which this result could have been avoided would involve drawing the additional state match required for extended TCC subsidies from the amount allocated to the State Child Care Assistance program. Again assuming a doubling of the amount of TCC funds, this would have reduced funds available for State Child Care Assistance by $350,962, from $1,437,942 to $1,086,980. This reduction in State Child Care Assistance would, however, have been offset by both the transfer of the $350,962 in state funds to TCC and by the addition of $623,932 in increased federal TCC funds. In order for this to happen, DHS would have to have the authority to spend less on State Child Care Assistance, an authority which is not clear from the budget language itself. In fact, taken literally that language would appear to require, in the absence of the $2.6 million, that the additional TCC match come from the funds originally intended for At-Risk Child Care, precisely the move which would result in no net impact.

Constructing New Principles For Maximizing Federal Funds

The view of the waiver request described above depends upon a simple principle: shifting money among federal funding streams which all require the same level of state match provides no opportunity for increasing federal funding, unless the total amount of available state funds increases. In order to construct a system which finds effective ways in which to maximize federal funds without increasing state funds, additional principles need to be invoked. These include the following.

1) Federal funds which require no match and may be used for a variety of purposes, such as SSBG money, should be viewed as state dollars. If one's goal is simply to increase the amount of money for child care, these may be viewed as valuable dollars, but if one's goal is to increase the overall level of federal reimbursement to the state, they should be reserved for programs for which categorical federal reimbursement is not available.

2) Federal dollars which require no match but which are targeted specifically at child care must always be fully utilized. Not spending these funds forfeits them.

3) All available federal funding streams have to be brought into play, regardless of which part of the organization administers them.

When these principles are added to the first one, a clearer picture can be drawn regarding which federal funding streams are useful in maximizing federal funding. Three factors are important: whether the funding stream is capped, whether a match is required and whether the funds can be used for some purpose other than child care. Table IV shows how each funding stream is categorized on these questions.

Prioritizing Funds

If all clients were eligible for all funding streams, these attributes would provide a complete definition of which sources of funding would be used first and which would be used last. CCDBG would be the funding stream of choice, because it requires no state match and cannot be used for anything but child care. SSBG would be used last because it is equivalent to state dollars.

Between those extremes lie one capped funding stream and several uncapped ones. At-Risk, the capped stream, would place second in the hierarchy. The principal reason is that it is allocated among the states according to a formula. History suggests that states which do not use their allocations eventually lose them. Thus, At-Risk dollars represent a hedge against future changes in the availability of federal money.

Table IV
Federal Funding Stream Attributes

Federal Category	Capped	Match Required	For Child Care Only
JOBS	No	Yes	Yes
Disregard	No	Yes	Yes
TCC	No	Yes	Yes
Food Stamp	No	Yes	Yes
At-Risk	Yes	Yes	Yes
CCDBG	Yes	No	Yes
SSBG	Yes	No	No

Within DHS' current fiscal management structure, the hierarchy described here would appear to be of little use. This is because each client is defined by the caseworker as belonging to a specific funding stream, and it would be necessary to examine each case record to determine whether any individual child or family is eligible for a funding stream other than the one defined for them. Such overlaps do, however, exist. A recent effort within DHS to discover public assistance clients being funded out of income eligible funding streams resulted in the move of $550,000 within a five month period from the capped income eligible streams to the uncapped public assistance funding sources. Because the capped monies had been fully expended, this meant that the dollars replaced were actually all state general fund monies.

Given an appropriate structure for recording client eligibility, it should not be necessary to undertake the labor intensive task of reading cases in order to find families with overlapping eligibilities. Indeed, if the right information is recorded, DHS' fiscal office, rather than the caseworker, could categorize every case according to the most advantageous available funding stream, ensuring that the state always maximizes its federal draw automatically. Creation of such a structure represents the first recommendation regarding the maximization of federal funding.

A Case Study

Ms. Smith is a single parent with two children, a three year old son and a four and a half year old daughter. She recently got a job as a waitress in a diner a few blocks from her apartment. She usually works both the lunch and dinner shift, and has been leaving the children at home alone while she works. A neighbor, concerned about the children being left alone, makes a report to DHS. Following an investigation, a protective services case is opened. Protective services day care is included in the protective services case plan, along with a referral to family-centered services. When the caseworker fills out the day care eligibility form, the following information is included:

1) child care is needed as a protective service, especially while the mother works.

2) The total family income is $9,000 per year (well below the poverty line.)

3) Ms. Smith and her children receive food stamps.

4) Ms. Smith works full time.

When the fiscal office receives the invoice for Ms. Smith, it already has the eligibility information available to it. Ms. Smith is eligible for four funding categories: Protective Child Care, State Child Care Assistance, At-Risk Child Care and Child Care and Development Block Grant.

At the time Ms. Smith applies for child care, ARCC funds have already been fully spent. CCDBG funds have also been fully spent, but only because some public assistance clients are included in those expenditures. Because Ms. Smith is not eligible for public assistance, her child care is funded as CCDBG, and an equivalent amount of money related to a public assistance client is moved from CCDBG to JOBS Child Care.

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Recommendation: **DHS caseworkers should no longer be required to classify cases according to their eligibility, but should instead simply record the relevant eligibility characteristics of each child and family, allowing the fiscal office to determine the most appropriate funding stream according to a pre-determined hierarchy.**

The primary impact of creating a funding hierarchy to maximize federal funds will be on the State Child Care Assistance and the Protective Child Care programs. Clients eligible for either of those programs will be automatically funded under federally reimbursable categories, until these federal funds are maximized. To the extent that such clients can be funded under uncapped funding streams, federal funding will be available to an even greater degree.

Implementation Issues

In order to understand how a system designed to maximize federal funding streams would work within DHS, three issues need to be addressed, which are as follows:

1) DHS currently uses a hierarchy of funding streams which prioritize state funds before federal funds.

Using state funds first makes a great deal of sense in a situation where the agency is uncertain as to whether all of its available money will be spent. DHS is, however, no longer in that situation. FY93 expenditures resulted in a deficit in child care, despite the closing of intake in the beginning of the year. No matter what happens, in the near future the struggle appears to be one of finding sufficient money to fund the services, and that requires a different strategy.

By establishing a hierarchy of funding streams which places non-matched federal funds first and state general funds last in the priority scheme, the total amount of money available to the agency can be increased. This will require either new budget language or an interpretation of the budget language which permits the money specified for use in State Child Care Assistance to be spent as match to the federal funds under At-Risk Child Care, Transitional Child Care, JOBS Child Care and Food Stamps Child Care.

2) At present, there are no administrative or fiscal linkages between Economic Services child care and Services child care.

From an organizational point of view, flexibility in the eligibility categories across public assistance related child care and income eligible child care would appear to require large organizational changes. But this is not necessarily the case. While from a client perspective there are many advantages to creating a single point of entry for all child care subsidies, the

lack of such a structure should not preclude the development of effective fiscal linkages across funding streams and work units.

Under the present structure, Economic Assistance workers are not permitted to authorize child care under any of the income eligible sources and Services workers are not permitted to authorize it under any of the public assistance funding streams. If, however, the fiscal office assumes responsibility for determining the most appropriate funding stream, workers who authorize child care services for a family would, in effect, be authorizing child care under any of the available funding streams, without even knowing it. No one outside the fiscal office would even need to be aware of how a particular child and family were funded, and, if the system is automated, even the fiscal office would not need to have that specific knowledge.

3) In order to maximize federal funding streams most effectively, meet the requirement of serving all those entitled to child care, and maintain subsidies for all families who are currently in the system, the state appropriation for child care may need to increase.

Iowa is already using all of the available CCDBG money it has been allocated, and it is also presumably using all of the SSBG money which it believes it can spare for child care. These are the only sources of federal funds which require no match. As a result, any additional draw down of federal dollars will require that additional state money be used as match. To the extent that funds currently spent on Protective Child Care and State Child Care Assistance can be diverted to cover that match, additional general revenues are not needed. The $2.6 million which the legislature recently designated from the Child Care Credit Fund is also available, providing that the budget permits this to be used as match for the public assistance funding streams. If it should prove possible to use the entire $2.6 million as match for federal sources, the state would reap an additional $4.6 million in federal funds.

It is conceivable that at some point even this extra funding will not be sufficient. Public assistance clients must be served, and the current commitment of the state is to maintain clients in the child care system once they have entered. The entitlement to child care for public assistance clients means, therefore, that the door is always somewhat open to new clients. Should the number of families entering the subsidy system increase sufficiently that the amount of funds available to draw additional federal dollars has been exhausted, the only viable alternative will be to increase those funds. With the funding hierarchy in place, however, this should occur virtually automatically; if DHS overspends its appropriation for child care, the automated system will identify funds from any available source. The hierarchy permits a reduction in the dollars needed to cover the deficit because those dollars can automatically be used to match federal funds, where available. Thus, only 36% as many dollars may be needed to cover any future deficit as would be needed in the current system.

Securing Additional Federal Funds

In addition to making the determination of client eligibility more flexible, DHS may pursue another option for maximizing federal reimbursement. The department may increase the number of funding streams it uses for child care. Three are of particular importance: Title IV-E, Title IV-A Emergency Assistance and Title IV-A Special Needs.

Recommendation: DHS should amend its Title IV-A and Title IV-E state plans to include child care as an allowable service.

The rationale for broadening the number of federal funding streams, even when existing streams are uncapped, is straightforward. Each of the uncapped streams is categorical in nature, meaning that only certain clients are eligible. When the number of funding streams is increased, some clients who are not eligible under the funding sources now used will become eligible under the new sources.

Foster children provide the clearest example. By definition, children receiving Title IV-E dollars to support their foster care placements are not eligible for AFDC payments. Federal regulations permit foster parents who are themselves AFDC eligible to receive JOBS child care assistance for a Title IV-E eligible child. Yet this policy still excludes the majority of foster parents. Title IV-E does, however, permit foster children to receive federally reimbursed child care when the purpose is to allow the foster parents to work. A number of states use IV-E funds in this way, including Illinois, Maryland, Minnesota, Missouri, New York, Texas, and Vermont. By accessing IV-E, what are now 100% state general funds can be turned into 64% federal funds.

Title IV-A Emergency Assistance is even more beneficial to the state, because the range of families who can qualify is wider. Typically, only 40-60% of a state's foster children are federally reimbursable under Title IV-E, and foster children represent in any case a relatively small population. Under Title IV-A Emergency Assistance, however, there is no financial eligibility test and any family which is experiencing an "emergency" can qualify. Services are time-limited, but one way in which states have begun to use this funding source, not merely for child care, is to pay for Protective Services. Title IV-B and SSBG funds, which have historically been used to pay for these services, have been fully utilized by most states for many years, meaning that the excess costs have been borne by 100% state funds. Use of the Title IV-A Emergency Assistance money to pay for all of the costs of Child Protective Services for the first three to six months after the report of abuse or neglect is received has reduced the pressure on Title IV-B and SSBG, which in turn can be used to replace the state dollars now supporting the excess costs.

This type of Title IV-A funding is sufficiently flexible that some states have even begun to replace some of their Title IV-E funds with this source. Within the context of this study what may make sense for DHS is to use Title IV-E for child care for federally eligible foster children and to use Title IV-A Emergency Assistance for non-federally eligible foster children

and for Protective Services Child Care, at least for the beginning of the service. Other states which have used IV-A Emergency Assistance to fund child care services include: Delaware, Georgia, Massachusetts, Montana, New Jersey, New York, Ohio, and Oklahoma.

Title IV-A Special Needs is another possible funding source. States are permitted to include special need items in the need standards which are defined as part of their AFDC state plan. Special needs may be recurring or nonrecurring, and are typically defined as "those needs that are recognized by the state as essential for some persons but not for all, and that must therefore be determined on an individual basis."[14]Colorado, Hawaii, Montana, Utah and Vermont have included day care expenses for children requiring such care for reasons other than employment of the parent (e.g. abuse or neglect and disabilities) in defining the special needs standard.

Fiscal Management: Automating the Child Care System

"Automation" has become latest buzzword in public agencies. Unfortunately, its meaning varies widely. In general, automation appears to be perceived as a mechanism for performing existing tasks in a more efficient manner. Probably as a result of this tendency, few public agencies, especially in the human services, have actually undertaken a full scale automation of their processes. The benefits of automation are not always clear.

In order for the cost of automation to be worth the required investment, an organization has to understand what it will be able to do which it could not previously do. In the case of the DHS child care system, this means three functions: allowing flexible eligibility determinations, operating a client driven projection methodology and reserving funds in all relevant funding streams for clients who are already in the system. Given the right automation structure, the last two become one.

Flexible Eligibility Determinations

The fiscal management system currently used by DHS does not allow the department to tie potentially available subsidy funds to a specific case, or to recognize in an explicit way that some of its clients may be eligible for more than one funding stream. Without such an ability, the agency is not only unable to accurately project costs, but is also using 100% state funds to pay for clients who could be funded under uncapped federal funding sources.

Recommendation: **DHS should develop an automated system for determining which funding stream will be used for subsidizing child care for individual children and families.**

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[14]Characteristics of State Plans For Aid To Families With Dependent Children, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, 1990-91.

The goal of this process should be to correlate specific families with specific funding streams, and to enable funding decisions on individual clients to be made in a centralized process, even when intake remains decentralized. While such a system could conceivably be designed without automation, it seems unlikely that it could actually be operated in that fashion.

In brief summary, the basic structure of an automated fiscal management system involves the collection of key pieces of eligibility information at the time of intake and then the comparison of that information against the eligibility criteria for child care funding streams in hierarchical order. Each case would be screened against the eligibility criteria in something like the following order:

1) Child Care and Development Block Grant
2) At-Risk Child Care
3) Title IV-E
4) JOBS Child Care
5) Food Stamp Child Care
6) Transitional Child Care
7) Title IV-A Emergency Assistance
8) Protective Child Care
9) State Child Care Assistance
10) Social Services Block Grant

The first funding stream for which a case was determined eligible, and which was not already fully utilized, would be the funding stream designated for that client family.

The real reason for automating, however, lies not in the complexity of the hierarchy and the eligibility rules, but rather in the dynamic nature of the system. When a client is eligible for a funding stream which has been fully utilized and for no other which draws federal dollars, the system will search for one or more clients in that stream requiring the same expenditure who could be moved to another source. Thus, not until all claims have been received will it be determined with finality which children and families are receiving subsidies under which funding sources.

There are numerous configurations in which this could happen. The entire system could be driven off of a mainframe; it could be done in a client/server mode; it could be done with a linked PC system, or, with some additional complexity, it could even be done with PCs which were unconnected to one another.

There is, however, at least one basic requirement which has to be met. *A single system has to include the relevant intake data which determine the range of programs for which a client is eligible and the amount of the payments which have been and are to be made for the client, including the specific units of service and provider rates applicable to the client.* This means that the information collected by the caseworker must be centralized at some level. Working solely from invoices will not work.

From a technological point of view, there is one interesting possibility for connecting intake and invoice information. DHS has already had some conversations with the Department of Revenue regarding the possibility of "phone invoices," a system currently being implemented in Arkansas. There, child care providers can use touch-tone phones to enter invoices directly into the computer, entirely by-passing the current process of filling out a paper invoice and having a data entry operator key-punch it (or, in the proposed DHS system, having the caseworker enter it on-line.) It is our understanding that DHS has the basic hardware to implement this type of phone invoice system.

An even greater advantage could come, however, from taking an additional step. If providers can enter invoices by phone, caseworkers should be able to enter basic intake information in this way as well. For this practice to be feasible, the information to be entered by phone would need to be kept to a minimum. (The lack of a hard copy from the phone hook-up will require a prior paper form to be filled out in any case.) Nevertheless, if just the data elements necessary to determine the most appropriate eligibility category were entered, and sent to the same automated system which will receive the invoice from the provider, the computer could determine both whether the client was eligible for a child care subsidy and under which funding stream. In fact, if the system were on-line, it could operate in the same fashion as electronic credit card approvals, where a code is returned, telling the worker that the family is or is not eligible for services.

Whatever the shape of the technology,, account must also be taken of DHS' regional and county allocations. Three options are possible:

1) The "centralized" determination of eligibility could be done at either the county or regional level, forcing each unit to continue to live within its allocations of each funding stream. The problem with this method is that it may prevent the identification of cases using one funding stream which could be funded elsewhere, simply because the relevant case is located in another area.

2) The eligibility determination could initially take place at the county or regional level, providing local managers with on-going information about their status in relation to their allocations, with end-of-the-year adjustments made in central office in order to ensure maximization of federal funds.

3) Central office could perform the eligibility determination function with regular electronic feedback to the localities. All information would be collected at the local level, but the calculation required to determine which funding stream should subsidize the child's care would be made by a central office computer. There would be no interim determination carried out by either the county or the area office. The adjustments necessary to maximize federal funding for all cases could then be made at various points throughout the year, permitting better projections of the state funds required.

Given the current (and likely future) structure of DHS' computer systems, the third option would appear to be the easiest to implement. Periodic batch processes could then be used to determine eligibility and move clients from one stream to another.

Projecting Expenditures/Encumbering Funds

Both DHS and the Legislature have made clear commitments to the children and families who are already receiving child care subsidies, even in the face of budget deficits. This means that some level of funds has already been reserved, although the agency does not at present know how much. Yet, without knowing the precise amount of money needed to continue subsidies for these families, it is impossible to determine whether FY94 will also result in deficit spending or whether the downward trend in expenditures which began with the closing of intake to income eligible clients will continue to the point that intake can be re-opened at some level. Projecting expenditures and encumbering funds amount to the same process, because it is only by knowing how much the agency has committed to existing clients that an accurate projection can be made.

Recommendation: DHS should develop an automated mechanism for projecting the expenditures to which it is already committed for clients receiving child care at the present time.

The requirements of an encumbrance/projection system reach far beyond those of the system required for maximizing federal funds through flexible eligibility determinations. It is possible, for instance, to move clients from a services child care funding stream to a public assistance-related stream without there being a connection between the public assistance computer system and the services computer system, simply because there are no caps on the child care funds related to public assistance.[15] It is not, however, possible to have a seamless child care system which guarantees continuing child care to anyone in the system *and* allows the agency to know how much money it has committed without connecting Income Maintenance and Service data.

Within a seamless system, a client should be able to move from JOBS child care to TCC to one of the income eligible funding streams without interruption. That means that funds from TCC, which are included in the Services child care budget, have been committed for clients about whom only the Division of Economic Assistance knows. To make matters more complex, while TCC funds are in the Services budget, the clients are handled by Economic Assistance staff. Thus, clients receiving subsidy under TCC have effectively encumbered income eligible dollars, although Services staff officially have no knowledge of these clients. The need for shared information is obvious.

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[15]This assumes that state matching funds can be used flexibly to match either services or public assistance child care.

The basic theory behind the encumbrance/projection system which is recommended here is relatively simple. Once a client completes a given program, e.g., JOBS, the client is guaranteed an uninterrupted child care slot and there are only a limited range of child care funding sources to which the client may proceed. Using historical information, DHS can determine two critical facts about the population served under each source: the likelihood that the client will move to the next stage and the length of time the client will spend at each stage. If the typical JOBS client receives child care under that program for six months and 60% of those clients move on to TCC with an average length of care of nine months, the agency has effectively encumbered 60% of the average cost of TCC care for a period of nine months beginning six months after the client begins JOBS child care.

By focusing on the clients who are already in the system, and by using the agency's historical data to determine both the probability the client will remain in the system and the length of time that will happen, DHS can develop projections based on existing clients, rather than on aggregate trends. Whether new clients come into the system is a factor which is largely under the control of DHS; whether clients stay in the system is not, at least as long as the commitment to maintaining clients throughout their eligibility remains.

Administrative Structure

Creating an appropriate fiscal management system makes a seamless system possible; making such a system real requires changes in the administrative structure as well. Establishing an administrative structure which supports seamless funding typically means that intake is centralized or that the various workers who are responsible for authorizing child care subsidies work together as a team. As noted earlier, seamless systems can be achieved in some cases by computer linkages and appointing staff to serve as liaisons between offices. But the process of obtaining continuous child care assistance will still be difficult for families if they are required to re-apply for assistance and/or make contact with different staff in different divisions each time their eligibility status changes.

In conducting interviews with staff in the central and area offices, and in each of the units responsible for administering child care funds, several issues were identified which we believe are key to this discussion:

- *There are insufficient staff to administer the child care subsidy program in any DHS work unit.* Due to the system of "weighting" case loads, the administration of child care funds receives the lowest priority of all tasks assigned to Services workers. Income Maintenance (IM) staff must help families with multiple problems negotiate a complex welfare system, and often do not have the time to focus on child care needs.

- *The staff who currently administer child care subsidies have received little or no training in child care policies and procedures.* Services staff are using outdated manuals as well as application forms which do not gather the information they need to

issue child care certificates. IM and PROMISE JOBS manuals provide very limited information on child care.

- *Although the IM and Services staff in some area offices attempt to work cooperatively, staff in each of the units tend to work in a vacuum, and to focus only on the child care needs of their clients to the extent that they relate to the specific program for which they are applying.* PROMISE JOBS staff, for example, are not responsible for ensuring that their clients apply for or receive TCC, nor are they familiar with the various child care subsidies available to employed, low-income families. It appears that no one is responsible for assisting families in thinking about the importance of locating, early on, a stable child care arrangement which can provide continuous services as the family moves from public assistance to training to employment.

- *To the extent that automation of service authorization, intake, or payment processes exists, separate automation systems are currently used in the different divisions which are responsible for administering child care subsidies, and these systems do not interface with one another.*

One way to address the problems posed above is to centralize the administration of child care in one DHS work unit, and identify and train staff in this unit to specialize in the administration of child care subsidies. All families who need child care for any reason would then be referred to this unit. In smaller counties the day care unit might consist of one or one-half staff person; in a larger area, numerous staff will be necessary. The day care unit would serve as a single point of entry for families needing child care assistance; staff in this unit would be responsible for ensuring that families have the financial resources and information they need to secure a child care arrangement which can last over time, even as they move from public assistance (PA) to training to employment.

Staff in the child care unit would: conduct eligibility determination for non-PA clients (since families receiving PA are entitled to child care they would be referred to the unit by their IM or JOBS worker,) assign priority codes and maintain waiting lists, assist families in locating and evaluating child care, maintain all child care provider files, coordinate provider payment, as well as gather and maintain data needed to project costs and plan for future needs.

A number of states have developed centralized child care units. Kansas, which has centralized day care administration in the Employment Preparation Division of the social services department, is a case in point. Others have chosen to base day care staff in the Services or Income Maintenance divisions, or to contract with the private sector to administer all child care subsidy funds. The exact division or agency chosen to house the day care unit appears to be less important than the fact that the administration of all day care funds has been coordinated and streamlined and that the department has made a commitment to developing staff with comprehensive expertise in the administration of child care subsidies.

Recommendation: DHS should consider contracting with CCR&R agencies to administer all child care subsidies and to serve as a single point of entry for families in need of child care assistance.

Based on interviews with DHS central office and field staff, as well as child care providers, it appears that sufficient personnel and resources may not exist to support the administration of child care subsidies in any division of DHS. Regardless of where DHS decides to consolidate the administration of child care, additional costs will be incurred. Contracting with CCR&R agencies may, however, be the most cost effective approach, especially since the department has already invested in developing and supporting these agencies.

A number of state and local governments have contracted with CCR&Rs or other private sector entities to administer all or part of their subsidy funds, including Alabama, California, Florida, Idaho, Indiana, Massachusetts, Nevada and Texas, as well as some counties in Minnesota, New York, New Jersey, and North Carolina. Illinois is currently piloting the administration of TCC and ARCC subsidy funds under contract with the CCR&R agency in Cook County, with the long range goal of contracting with CCR&R agencies statewide to administer all child care subsidies.

Costs for contracting with the private sector to administer child care subsidies range from a low of 7% to a high of 25%, with most falling in the 15% range. In general, administrative costs on the lower end cover pure fund management costs, while those at the high end include a number of supports for parent and providers (e.g. enhanced referrals, training, technical assistance, etc.) Economy of scale is an important factor. The cost of administering subsidy funds in a small service delivery area will tend be higher, when viewed as a percentage of the total funds administered, than in larger areas. As a a result, many states negotiate cost-based administrative rates, rather than establishing a flat percentage of funds administered.

In many states CCR&Rs and other contract agencies have been key players in implementing a seamless child care subsidy system, and have modeled a range of implementation strategies. Texas, for example, has developed an expert automation system which coordinates nine funding streams for 22 client groups, uses eligibility logic programmed into the computer to identify the most advantageous funding stream and select families from a centralized waiting list. The system also links intake and fiscal management, so that funds are encumbered at the time of authorization and adjusted daily. This automated Child Care Management System is used by contract agencies who are responsible for administering the child care subsidy program.

A number of the CCR&Rs who administer child care subsidies have been successful in attracting a wide range of public and private funds to support these services. Child Care Resources, the CCR&R in Birmingham, Alabama, administers subsidy funds from United Way and the Community Development Block Grant, as well as public subsidies from all of the state and federal child care funding streams. The Community Coordinated Child Care for Central Florida coordinates funds from forty-nine different public and private sources,

including three cities, four county commissions, five JTPA Private Industry Councils, three school boards, two community development districts, a community college, the United Way, the Department of Housing and Urban Development, Head Start, and several private philanthropies and businesses. Two of the CCR&Rs responsible for administering child care subsidies in rural counties in upstate New York have spearheaded efforts which coordinate the administration of child care, Head Start and state prekindergarten funds and services.

The advantages of contracting out are numerous, and include the following:

- All families who seek child care subsidies from any funding stream could apply for child care in the same place. Even if the funding stream used to support the child care assistance changes, the family would still deal with the same agency, the same procedures, and the same staff. With a focus on seamless funding, staff responsible for administering child care subsidies would be responsible for taking a broad view, and assisting families in securing a child care arrangement which can last over time.

- Families could receive referrals for child care, and assistance in locating a child care provider which best meets their needs, at the same time and place as they secure a child care subsidy.

- All funds (federal, state, local, and private) available for child care subsidies could be coordinated into one automated system. The cost of administering the program could be spread across all of the funding sources.

- Maximization of federal funds could be simpler and cheaper because many of the CCR&Rs already have the hardware necessary to perform the intake and invoicing functions described earlier. All that would need to be added would be a simple PC based program for collecting the information and then a mechanism for transferring the information to the DHS central office.

- Administering funding changes at the state level would be simplified. When new funds become available, they could be "loaded" into the system. When cuts occur, centralized efforts can be made to shift families to another funding stream or alter priorities.

- Contracting with the private sector would increase the possibility of attracting additional private funds to help support child care subsidies. United Way, for instance, contributes subsidy funds to contract agencies responsible for administering child care subsidies in Florida. Other private philanthropic entities could be encouraged to make similar contributions.

- DHS child care subsidy funds could be more effectively coordinated with DOE funds by utilizing CCR&Rs as a central point of entry for children with special needs. Area Education Agency #7, for example, currently contracts with the CCR&R agency in

Waterloo to coordinate services for these children. The CCR&R employs an Early Intervention Coordinator who facilitates the evaluation and assessment process and follows the child through the development of an IEP (the child's service plan), after which an on-going service coordinator is assigned. The CCR&R maintains data on the child(ren) and the placement(s), which is used for planning.

- Waiting lists could be centralized and automated. When funds become available in a specific funding stream, the system could search and identify families on the waiting list (in order of priority) who are eligible for those funds.

- DHS could consider using CCR&Rs to gather and maintain data on provider rates, thereby alleviating the need to conduct a market rate survey every two years.

- The development of an automated provider file--which contains the provider's published rate as well as any information necessary to process a certificate--could be simplified, as the CCR&R agencies must already establish and maintain such systems.

In exploring the feasibility of contracting out with the private sector to administer child care subsidies, DHS will need to think carefully about how to maintain accountability with these contract agencies. At a minimum, the department will need to have information on: the clients who are served, the cost incurred for each client, and the type of setting used by each client.

Streamlining Administration

Waiting Lists

The recommendations made in this report are designed to help DHS maximize all available funds for child care and to develop a market driven child care subsidy system which supports parent choice. This process also creates a number of possibilities for streamlining and simplifying the administration of child care subsidies. In some cases, policies which were established for the purpose of containing costs are actually resulting in increased administrative costs. The current intake procedure is a good example.

The regulations which took effect on July 1, 1993 eliminated all waiting lists and directed staff to begin a new list, but only for those families included in priority code #1 (i.e. families at or below 100% of poverty who are employed full-time and have a child less than 5 years of age.) If funds become available at a later point in time, staff will be directed to conduct intake on families in priority code #2, and so forth.

While the policy described above appears to contain costs, it is also administratively burdensome. Intake staff will still be required to conduct a full eligibility determination on all families in priority code #1, even if child care subsidy funds are not currently available. Because family circumstances change frequently, it is likely that eligibility will have to be re-

determined when funds are secured. Staff will also need to take time to in some way "screen" all families who request subsidies to determine who will be permitted to make application and who must be sent away. If intake is opened to priority code #2, this process will need to be repeated all over again.

The intake policy also fails to meet the need of parents. Families who are entitled to child care assistance may be misinformed about the availability of child care subsidies and discouraged from applying for assistance. Parents or guardians who have incomes slightly above the cut off for priority code #2 will be sent away without services, and with no information as to when they might be given the opportunity to re-apply.

An alternative intake procedure would employ a one page screening/intake form which could be completed during a brief telephone interview. This form would gather the information necessary to determine several key pieces of information: 1) if the family is entitled to child care (and should therefore be served immediately,) or 2) if the families is eligible for a capped subsidy, and if so, 3) what priority code should be assigned. On the basis of this form, the family would be entered on he waiting list in priority code order. A complete eligibility determination would not be conducted until subsidy funds are actually available. A copy of the form would be sent to the parent, along with a cover letter explaining the subsidy system, the waiting list priorities, and any other relevant information.

In order to ensure that the waiting list is kept current, the list could be "cleaned" at regular intervals (e.g. once a year) by sending out post cards to all families on the list and requesting that they update the information. Non-respondents would be eliminated from the list. An alternative would be to inform all families that their name will be removed from the waiting list if funds do not become available within one year, after which they would need to re-apply.

Intake staff who have used systems similar to the one described above report that it takes no more time to complete a simple screening form than it does to answer parents questions about why subsidy funds are not available and when intake might be re-opened. This type of system also eliminates the necessity of establishing a rigid income eligibility ceiling, and instead allows eligibility to wax and wane based on the availability of funds and the number of families in each priority code.

It is important to stress that waiting lists need not be seen as a sign of failure, but rather as an indicator of need and a helpful planning tool. All low-income families should be given the opportunity to apply for child care assistance. If families are fully informed about service priorities and given and understand how the system works, waiting lists will not be viewed as an empty promise.

Certificates

Probably the largest single source of administrative burden for the Services staff who currently administer the child care program lies in the administration of child care certificates (vouchers).

At present, the child care certificate which authorizes child care for a client is viewed as an agreement among the client, the agency and the provider. Not only does it specify the client's eligibility and exact funding source, as discussed above, it also names the specific provider and the exact hours the client will receive child care. Every time any factor changes, whether because the client's school schedule or work schedule changes or because the client moves from one provider to another, the certificate must also be changed. Because low-income families tend to experience frequent changes in their schedules (e.g. temporary or odd-hour work, varying school schedules, etc.) and because their child care arrangements are not always stable, the frequency of certificate changes tends to be high. If these certificate changes could be reduced, the administrative burden on the caseworker could be significantly eased.

The starting point for achieving simplification of the child care certificate process lies in the way that child care is viewed. So long as child care is seen as a social *service*, caseworkers are going to believe they need to direct and control it. If, on the other hand, it is seen as a *subsidy*, the client gains more control. The federal decision to mandate parent choice and market rates suggests that the system should be viewed in subsidy terms. The goal should be to provide subsidized families the same range of options, the same financial resources, and the same level of control over their child care arrangements which non-subsidized families have.

In some cases it may be appropriate for DHS staff to view child care as part of a service plan developed to assist a family. Families receiving protective or preventive services, teen parents, or children with disabilities are good examples. In these cases, staff would be providing child care as a social *service*, and would be involved in assisting the parent or guardian to select an appropriate child care placement.

In a majority of cases, however, families are in need of child care assistance solely for economic reasons, and require a *subsidy* to assist them in paying for care. What this suggests for the certificate process is that the family should be provided with something as close to cash as possible. Like cash, the certificate must have a clearly defined value, which is defined as units of service rather than dollars. Outside of the laws and regulations which apply to child care provided to any Iowa family, no additional provider limitations are necessary.[16] In this scenario, then, a family would receive a certificate for a given number of

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[16] Parents may need information about the range of providers which are available to them, the rates which DHS will pay, and and other relevant rules and regulations. They may also need assistance in locating and evaluating providers who are near their work or home and have openings. These needs can be met by developing

units of service, which could be used with any legal provider and at any time of day and on any days of the week, up to the maximum amount allowed. Changing providers would cause no change in the certificate, because the provider would not be listed on the certificate. Changing the hours of the day or the days of the week, due to changes in work or training schedule, would cause no changes, so long as the total number of units of service required did not change.

The immediate objection to the system described above is that DHS would not know what provider was being used or how much was being charged, at least until the first invoice arrived. From the perspective of the legality of the provider, that can be taken care of by ensuring, as is now done, that the providers who are paid are listed on the provider file. From the perspective of the adequacy of the provider beyond simple legality, the subsidy view of child care suggests that this is a decision for the parents to make, not one for DHS to make. While the projections of future expenditures could only be made after the provider was known, this represents only a one month delay, not sufficiently significant to cause major disruption.

The simplest implementation of this proposal would be to transform the child care certificate into a set of child care vouchers, one for each unit of service. In essence, it would be creating something like food stamps for child care. Upon receipt of a voucher, the provider could submit it to DHS for payment. The voucher number would provide both the identity of the client and the level of care (basic or special needs); the provider file would reveal the appropriate rate.

This system represents a complete implementation of the notion that child care is a subsidy system in which the specific services to be provided are decided upon by the parents within the constraints of the market system. It is also a system which could provide significant relief to DHS caseworkers from the administrative burdens now associated with managing child care.

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resource materials, such as a parent handbook which explains the DHS subsidy system, and ensuring that subsidized families have access to CCR&R services.

Defining Services and Rate Options In A Market Driven System

Provider Requirements

When this project was initiated, one of the key concerns raised by DHS was the need to more clearly define the child care services for which it makes payment. In moving from a system of POS contracts to a parent choice voucher system, the department struggled to develop policies which ensure choice, promote quality, and control costs. Providing child care services to children with special needs posed additional new challenges, both fiscally and programmatically. As a result of these concerns DHS asked the contractors to assist them in developing new service definitions and to link those definitions to a market driven rate structure.

Recommendation: DHS should group the care it purchases into three broad categories: legal care, accredited care, and therapeutic care.

After speaking with DHS staff in central office and in the field, conducting interviews with child care providers and child care administrators in other states, and thinking carefully about the administrative and fiscal constraints present within the department, it was suggested that child care providers be grouped into three general categories:

Legal Care	Includes all legal child care options (i.e. licensed, registered, and legally exempt from regulation.) All families receiving child care subsidies from any funding stream will be permitted to select any legal child care provider, except in cases where the child is receiving protective services. A description of legal child care providers in Iowa is included in Tables IIa and b on page 9, 9.
Accredited Care	Includes regulated child care providers (center-based and home-based) who are not currently in corrective or adverse action with DHS, have participated in a program evaluation (as part of the integration/quality improvement grant process described on page 59, 59) and have obtained or are in the process of obtaining NAEYC or NAFDC accreditation.
Therapeutic Care	Includes programs which provide therapeutic child care, special education and social services exclusively to, or in a program which integrates, children with special needs. Therapeutic child care settings provide such services as speech, hearing, physical, and other therapies; individual or group counseling; therapeutic recreation; crisis intervention, etc.

These categories should not be viewed as service definitions, but rather as a framework for incorporating provider requirements into a parent choice system.

Legal Care

The first category, legal care, is designed to support parent choice in a seamless child care subsidy system. Child care subsidy funds from any source may be used to purchase any legal child care, and funds will follow the child to whatever program is chosen. For purposes of determining rates, this broad category will be divided into the following settings: child care center (i.e. any center-based program, including part-day preschool and school-age programs and Head Start), group day care home, family day care home (including relatives who care for a child in the relative's home), and in-home care (including relatives who care for a child in the child's home).

The fact that family child care registration is voluntary poses some unique challenges in the area of legal care. Individuals interviewed for this study frequently pointed out that because family child care registration was not mandatory, few providers bothered to complete the process, rendering it essentially meaningless. Indeed, by national standards the Iowa family child care registration process is fairly simple and should not pose a barrier to provider participation in the subsidy system. To this end, it is advisable that the registration system become mandatory for all family child care providers.

Recommendation: The DHS voluntary family child care registration system should be made mandatory for all child care providers who care for six or fewer children in the provider's home.

Accredited Care

The second category, accredited care, is designed to encourage and support the development of high quality early childhood care and education services. Whenever possible, children who are receiving protective services should be placed in accredited care. If accredited care is not available, these children should be placed in a licensed or registered child care setting. If it is determined that the child needs more intensive intervention, s/he may also be placed in therapeutic care. Subsidized families who have children with special needs and who are not receiving protective services may, however, choose any legal provider.

Recommendation: Children who are receiving protective services should be placed in accredited care. If accredited care is not available, these children should be placed in a licensed or registered child care setting.

We are recommending that accredited care be the care of choice for children receiving protective services for several important reasons. First, children receive protective services because they are at risk of abuse or neglect. The department opens a protective case because they believe that intervention is necessary. It seems logical, therefore, that the department would want to ensure that the intervention they provide is of the highest quality.

Second, the providers who serve children receiving protective services should, at a minimum, have a criminal background and child abuse check. These checks are not completed on providers who are exempt from regulation. Third, the providers who serve children who have been abused or who are at risk of abuse should ideally have the skills necessary to help these children grow, learn, and succeed. Effectively guiding children's behavior--especially large groups of children who come from diverse backgrounds and who may have been abused--is a difficult task. The accreditation process is designed to help providers address a range of factors (curriculum, staff development, administration, staffing patterns, physical environment, etc.) which contribute to a quality early childhood program.

We recognize that few providers in the State of Iowa are currently accredited, and that it may take time and resources for a significant number of the providers to become accredited. To this end, we are recommending that providers who have participated in a program evaluation and are in the process of obtaining accreditation be included in the category of accredited care. We further propose that a special grants program be established to assist providers in obtaining accreditation. See page 59 for a more detailed discussion of this program.

Therapeutic Care

The third category, therapeutic care, refers to a small group of child care programs which are providing a host of therapeutic and special education services in a child care setting. These programs may be serving children with special needs exclusively, or they may be offering integrated services. It is anticipated that these programs will be drawing upon social service, education, and public health funds from a variety of federal, state, and local sources. Child care funds will be used to pay for only a portion of the cost of therapeutic care.

Rate Options

DHS was very clear that any proposal for new rate options must be revenue neutral. A strong desire to more carefully control costs was stressed throughout this project. At the same time, it was also necessary to develop rate options which would support a parent choice voucher system and comply with the federal requirement that rates be based on the fees charged to private, non-subsidized families, capped at the 75th percentile of the market rate.

Recommendation: DHS should establish two rate options for subsidized child care: a basic rate and a special needs supplement.

These rate options are defined and discussed in detail below.

Basic Rate	Providers who receive the basic child care rate will be reimbursed at their published rate, so long as it does not exceed the market rate ceiling (at the 75th percentile.) DHS will establish procedures for verifying published rates.
Special Needs Supplement	A supplement to the basic rate will be available to providers who serve children who have a temporary or permanent disability, and who have special care needs. This supplement will be established on the basis of a rate adjustment factor of 1.25 of the basic rate.[17]

The basic child care rate will apply to all child care providers and will be based on a market rate survey. The survey will be conducted every two years, and will establish rate ceilings capped at the 75th percentile of the market rate. Providers will be reimbursed at their published rates (i.e. the rates charged to private, fee-paying families) so long as they do not exceed the rate ceilings. DHS will establish procedures for verifying published rates.[18] In cases where there are only one or two caregivers of a type of care in a local market area (e.g. a county), and the provider's published rate exceeds the rate ceilings, DHS will have the authority to approve reimbursement up to the 100th percentile.

The special needs rate is designed as a supplement to the basic rate, in cases where it has been determined that the child has a temporary or permanent disability and has special care needs that result in additional costs. A special care need is, for example, something that the parent would normally be doing if the parent were available, including activities or interventions which might need to be done as a follow-up to therapy. In the parent's absence, the child care provider has assumed this role. It is appropriate, therefore, for the child care system to support the cost of meeting these special care needs. Meeting the special care needs of a child in an integrated early childhood setting may require the program to have lower staff to child ratios or smaller group sizes (to allow for more one-on-one interaction between teacher and child.) Staff might also need additional training or support and, in some cases, it may be necessary to make minor modifications in the facility or purchase special adaptive equipment.

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[17]In order to address the ADA violations which may result in the use of a rate supplement for special needs, Iowa Code and Rule will need to be amended to include language which permits child care providers to request a rate supplement when additional costs are incurred in serving a child with special needs, even when the program does not charge private, fee-paying families for these additional costs. It may also be necessary to request a federal waiver. (For further discussion of this issue, see "Special Needs Rates and the ADA: A Potential Conflict" in Appendix A, on page 86.)

[18]Other states typically request written verification of a published rate, which could include a brochure, parent handbook, or policy manual. Some states require family child care providers who do not have published rates to complete a form which identifies costs and fees, or to submit a letter which indicates the rates they charge to private, fee-paying families.

Not all children with special needs require expensive accommodations, and when additional costs occur they are usually in proportion to the total cost of operating the program for all children. To this end, we recommend a rate adjustment factor rather than a separate special needs rate, as the most appropriate way to fund these additional costs.

Recommendation: A separate rate category should not be established for therapeutic child care. Funds from DHS and DOE should be coordinated to support these programs and additional potential funding sources should be explored.

Therapeutic care includes early childhood services which would typically be provided by a therapist or special education teacher, rather than a parent. Therapeutic child care includes such services as speech, hearing, physical and other therapies; individual or group counseling; therapeutic recreation; crisis intervention, etc. A separate child care rate is not recommended for therapeutic child care. These providers will receive the basic child care rate, and may also apply for a special needs supplement if they are providing services to meet special care needs which are not covered by other funding sources. DHS should work in cooperation with the State Department of Education (DOE) to make funds available from Part B of the Individuals with Disabilities Education Act (IDEA), the DOE At-Risk program, Weighted Special Education Funds, and Chapter I to help support the additional costs of therapeutic child care. In addition, DHS should explore the possibility of using Medicaid, Title IV-B, and Title IV-A Special Needs to help fund therapeutic child care.

Service Definitions

Recommendation: The eligibility definition for special needs and protective services day care should be amended.

In order to support the categories of care and rate options described above, the current definition of special needs and protective services will need to be revised as follows:

A child is eligible for special needs child care if s/he has been identified by a physician, developmental specialist, qualified mental retardation professional, qualified mental health professional, or area education agency clinician as having one or more of the following conditions:

a) a disability which substantially limits one or more major life activities, and the child requires professional treatment, assistance in self-care, or the purchase of special adaptive equipment;

b) a condition which impairs the child's mental, intellectual, or social functioning;

c) a behavioral or emotional disorder characterized by situationally inappropriate behavior which deviates substantially from behavior appropriate to the child's age, or which significantly interferes with the child's intellectual, social, or personal adjustment; or

d) has been identified by any of the above professionals, or by a social worker, as having a mental, physical or emotional condition or behavior associated with being the victim of abuse or neglect.

A child is eligible for protective service child care if the child has a case plan that identifies protective child day care as a required service and is a member of a family with the following:

1) a founded or undetermined case of child abuse; or

2) episodes of family or domestic violence or substance abuse which place the child at risk of abuse or neglect and have resulted in a service referral to family preservation or family-centered services.

Implementation: The Interface Between Provider Requirements and Rate Options

A key goal in establishing rate options was to develop a market driven system which supports parent choice. The proposals are designed to give parents the resources they need to purchase the care of their choice from among a range of options available in the marketplace. To this end, the proposed rate options are tied to the child rather than the provider. All subsidized families will be given a certificate (voucher) to purchase care. The certificate will allow them to purchase care at the rate a provider charges to private, fee-paying families (so long as this rate does not exceed the market rate ceiling established by DHS.) Families who have children with special needs will be able to purchase care at a higher rate, based on the notion that it may cost more to serve these children.

A child will be designated as having special needs on the basis of an assessment by a qualified professional (as per the eligibility definitions.) This assessment will include a description of the child's special care needs (e.g. adaptive equipment, more careful supervision, special staff training, etc.) The child care provider chosen by the parent will then be informed that they may apply for a rate supplement to cover the additional costs of meeting these special care needs. As an accountability measure, the department may want to request that the provider and parent sign a form indicating that the services have indeed been provided.

With the exception of families receiving protective services, subsidized parents may select care in any of the provider categories: legal, accredited, or therapeutic. All subsidized parents will receive the basic rate, unless they have a child with special care needs, in which case an

additional special needs supplement will be available to them. Table V on page 58 graphically describes the relationship between rate options and provider requirements.

It is important to note that accreditation is a voluntary status. Providers will not automatically receive a higher reimbursement rate when they become accredited. Because the federal CCDBG regulations prohibit paying differential rates within a category of care, Iowa could not receive federal reimbursement for paying higher rates to accredited providers.[19] The state could choose to supplement these costs with state funds, but given the current deficits in child care, this is simply not an option at the present time.

Recommendation: Incentive grants, designated protective child care referrals, and consumer education materials should be developed to encourage providers to become accredited.

We propose, therefore, that the following incentives for providers to become accredited be established: 1) they become eligible to receive grants (from the quality set-aside in the CCDBG, Part H, or another grant funding source) to help pay the additional costs of becoming accredited; 2) they become the placement of choice for children in protective services; and 3) information on the importance of program accreditation be included in the consumer education materials distributed by the CCR&Rs, so that as parents become more aware of the importance of accreditation, these providers become better able to market themselves to the general public.

An additional incentive--for both the providers and DHS--is that DOE is now using NAEYC accreditation as a benchmark for the child care programs with which they contract. The special education unit has recently developed a program evaluation process, which is similar to the one we have proposed, to be used by the local school districts when they identify placements for children with special needs. In addition, the DOE At-Risk programs are all being encouraged to pursue NAEYC accreditation. Thus, moving in this direction at DHS will put the department in a position of establishing consistent standards across all early childhood settings.

Without a higher reimbursement rate which is specifically tied to accredited care it may be difficult to encourage providers to achieve this status. It is important, however, that the department establish policies which acknowledge the value of quality child care, and do what it can to promote excellence in service delivery. A few states, such as Florida (which has "assessed" providers) and Texas (which has "designated vendors") have established similar systems. These states have found that although some providers will always be resistant, the number of providers willing to obtain the higher status has gradually increased.

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[19]The CCDBG regulations do permit states to pay up to a 10% rate differential within categories if: a) the state can show that the different rates are based on actual market conditions (e.g. determined by a rate survey) and b) services under the Block Grant and Title IV-A child care are delivered through a single, seamless system.

Rate Options	Table V Provider Requirements		
	Legal All providers who are licensed, registered or legally exempt from regulation.	Accredited Licensed and registered providers who have obtained--or are pursuing--accreditation.	Therapeutic Programs which provide therapeutic child care or special education & related services.
Basic Rate Reimbursement will be available at the rate charged to private fee-paying families, capped at the DHS market rate ceiling.	Includes families who have chosen legal care and are receiving the basic reimbursement rate. This would include most families receiving DHS certificates, except those who have children with special needs or who are receiving child care as part of a plan for protective services.	Includes families who have chosen accredited care and are receiving the basic reimbursement rate. (Note: accredited child care providers would not receive a higher reimbursement rate unless the child was determined to have special needs.)	In all likelihood, this option would not occur. Nevertheless, families who do not have children with special needs would be permitted to choose therapeutic care, but they would only receive the basic child care rate.
Special Needs Supplement A supplement to the basic rate will be available to these providers. A rate ceiling for the supplement will be established as an adjustment factor of the basic rate (e.g. capped at 1.5 of the provider's basic rate.)	Includes children with special needs who have chosen a legal child care option. (Note: this <u>could not</u> include children receiving protective services child care unless accredited care is not available. In this case, every effort will be made to secure a legal child care provider who is licensed or registered.) Providers of care in this cell will receive the basic reimbursement rate, and may apply for a special needs supplement.	Includes children with special needs (including those receiving protective services) who do not require therapeutic care. Providers of care in this cell will receive the basic reimbursement rate, and may apply for a special needs supplement.	Includes children with special needs (including those receiving protective services) who need a child care program which incorporates therapeutic and/or special education services. Providers of care in this cell will receive the basic reimbursement rate, and may apply for a special needs supplement. Therapeutic care providers will be encouraged to apply for other forms of subsidy (e.g. DOE Special Ed, Chapter I, and At-Risk funds) to supplement DHS reimbursement. Additional funding sources for therapeutic care (e.g. Medicaid, Title IV-A Special Needs) should also be explored.

Grant Programs

The proposals for provider requirements and rate options described above are based on two key assumptions: 1) that parents should have the ability to select the child care provider which best meets the needs of their child(ren) and family, and 2) that a sufficient supply of high quality child care options is available to serve families, especially those who are of low income and have children with special needs. Promoting the supply of high quality child care requires a strategy which includes not only restructuring rates, but also developing some new grant and/or contract programs.

Integration/Quality Improvement Grants

Recommendation: An Integration/Quality Improvement Grants program should be established to assist child care providers in becoming accredited and in serving children with special needs.

It is recommended that grant funds be made available to child care providers who 1) participate in a program evaluation designed to assess the overall quality of their program and identify changes necessary in order to serve children with special needs, including children receiving protective services; 2) agree to pursue accreditation from the National Association for the Education of Young Children (NAEYC) or the National Association for Family Day Care (NAFDC); and 3) agree to work with the regional area education agencies, DOE At Risk programs, and other relevant agencies, to serve children with special needs.

Grant funds could be used for a range of services, including: staff training, materials and equipment necessary to successfully complete the assessment process, minor modifications to the facility, special equipment, or if necessary, additional staff to support lower ratios and smaller group sizes. Grants should initially be targeted to programs which serve a large number of low income families.

Grant programs which promote integration and/or quality improvement have been established in Vermont and Texas. Both of these states have developed assessment tools. In Texas, management of this program has been contracted out to the private sector. Texas uses a portion of the 25% CCDBG quality funds to support the program; Vermont uses Title IV-B. To the extent that the assessment process is designed to assist programs in integrating children with disabilities, Part H of IDEA becomes another potential funding source.

The Need for Contracts in Some Low-Income Communities

Provider interviews revealed that in programs which serve large numbers of subsidized children the freeze on intake into the subsidy system which has occurred over the past year is a much more serious problem than low reimbursement rates. Maintaining maximum

enrollment is key to the economic viability of a child care program. Child care centers which are located in low income communities and which rely almost exclusively upon public subsidies are placed in serious jeopardy when intake into the child care subsidy system is frozen. One of the providers we interviewed, for example, indicated that 30% of the center's slots were currently vacant, largely because no subsidy money had been available for the past year and the parents in this community could not afford to pay private child care fees. Under the old POS system, financial losses which resulted from intake freezes had been offset by increases in the reimbursement rate. In other words, as fewer children were enrolled in the program, the cost per child increased. And until recently, providers who had POS contracts could negotiate higher rates to help cover higher per-child costs. This is not the case, however, under the current certificate system.

Given the fact that DHS has proposed severe limitations on intake into the subsidy system for the upcoming fiscal year, it is likely that such programs as the child care center described above will suffer, and might even choose to close. One way to prevent this problem is to establish contracts which ensure that these providers will receive subsidy funds even when intake is frozen. Although such a policy is inconsistent with the notion of a market driven, parent choice system, it may be a necessary intervention in some low-income communities.

Recommendation: **DHS should consider establishing a limited number of provider contracts in low-income communities where the need for subsidized child care is great, the supply of child care centers is limited, and freezes on the availability of subsidy funds have placed these centers in financial jeopardy.**

It is important to remember that a market driven, parent choice system can work only if the market currently provides--or will provide as a result of the stimulus posed by a voucher--a range of child care options among which parents can choose. Unfortunately, this is not always the case. As a number of studies have revealed, the child care market is unique, and does not respond to the principles of supply and demand in a typical fashion.[20] Child care advocates have often raised concerns about the extent to which a range of child care options is indeed available in many neighborhoods.

When the child care market is viewed from the perspective of families who reside in low-income communities and receive subsidized child care, the issues of supply and demand become even more complex. In low income communities, for example, the demand for child care in centers and regulated family child care homes is typically driven not by need but by the availability of child care subsidies, since families without subsidies can rarely afford to purchase regulated care and regulated providers can rarely afford to survive on fees which are

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[20]see The Economics of Child Care, David M. Blau, Editor, The Russell Sage Foundation, 1991; and Culkin, Mary L., Suzanne W. Helburn, and John R. Morris, "Current Price Versus Full Cost: An Economic Perspective," from Reaching the Full Cost of Quality in Early Childhood Programs, Barbara Willer, Ed, National Association for the Education of Young Children, 1990.

not subsidized by the government or another philanthropy. Thus, the types of child care available in a particular low-income community may be a direct result of the types of subsidies available in the community, rather than the need for care.

Even the area which is loosely defined as a community or neighborhood for purposes of a child care search will change as socioeconomic status changes. Because the availability of child care varies widely from neighborhood to neighborhood, many middle class families are able to access a wide range of child care providers by expanding their child care search beyond the neighborhoods in which they live and work. Without a car or access to public transportation, low-income families must typically choose their child care providers from a very limited geographic area. Thus, when we talk about the availability of child care in communities, it is important to think carefully about how we define the term community and how accessible the care is to families without transportation.

We are not recommending that DHS enter into a large number of provider contracts. Rather, we are suggesting that by developing a few contracts in specific low-income neighborhoods, DHS could help to ensure that the parents in these communities continue to have a supply of regulated child care available to them.

Any of the child care subsidy funding streams could be used to support provider contracts; these funds need not be drawn from the 25% CCDBG set-aside for child development or quality initiatives. Indeed, we would strongly recommend that the 25% set-aside be used only for quality initiatives, and that any operating assistance awarded to child care providers be drawn from the range of funding streams available to support child care subsidies (e.g. CCDBG, ARCC, IV-A, TCC, etc.) As we have stated earlier, the CCDBG 25% set-aside is a very small amount of money, and may be the only funds available to support a range of training and quality improvement initiatives (such as the Quality Improvement/Integration Grants we have recommended.) There are, however, a host of other funding streams which may be used to support child care subsidies, several of which are uncapped entitlement programs.

Coordinating Certificate and Grant Programs

Another way to help provide some financial stability to providers in low-income communities is to develop initiatives which coordinate certificate and grant programs. DHS could develop a grant program which supports a range of quality improvement activities (e.g. the cost of maintaining trained and stable staff) and which could be made available to providers in low-income communities where regulated child care is not available or is financially vulnerable. These programs would continue to accept subsidized children paid for with certificates at market rates, but could use the grant funds to help pay the difference between the cost of care and the total amount of subsidy funds received from certificates. The grants provide a measure of financial stability, while the certificates continue to support parent choice in a seamless system.

Texas has developed a similar program, called Comprehensive Early Childhood Development (CECD) contracts. CECD contractors are required to meet a series of performance standards, which are very similar to Head Start standards. The providers are required to continue to serve subsidized families on a parent choice basis, and they receive certificates for these families. The CECD contract funds are designed to supplement revenues from certificates, and to ensure that a supply of high quality child care programs is available in targeted, low-income communities.

Establishing a Rate Structure in a Market Driven System

In revising its rate structure for child care services, DHS felt strongly that it wanted to establish a single unit of service for all subsidized child care. At present, the department uses three different units of service and corresponding rates: hourly, half-day and full-day. DHS was unhappy with this structure, and felt that it created extra administrative burden and contributed to confusion among parents and providers. At the outset of this project, DHS was exploring the feasibility of shifting to an hourly unit of service, but had received some strong opposition to this proposal from providers and was unclear as to whether this was the most appropriate unit to use.

Recommendation DHS should use the half-day unit as its sole unit of service.

Establishing a single unit of service for all subsidized child care services is a difficult task, and requires a number of trade-offs. No perfect solution is possible. The rationale for this recommendation, and the advantages and disadvantages of each possible alternative, are discussed below.

Hourly Rates

The major advantage of using an hourly unit of service for all subsidized child care is its apparent simplicity: DHS pays for the exact hours of service its clients receive. Depending on the methodology used to arrive at an hourly rate, using this unit of service also has the potential to reduce costs. If, for example, the department assumed that the current full-day rate covered the cost of a ten hour child care day, and subsequently divided all of the full-day rates by ten, they could arrive at a relatively inexpensive hourly rate. This rate would be likely to reduce DHS costs in cases where less than ten hours of care per day is needed.

The discussion above is based on the assumption that DHS is responsible for setting the actual rates paid to providers. However, this is not the case. DHS is responsible for setting rate ceilings, but the actual rate paid is to be the providers' private rate, so long as it does not exceed the ceilings. Rate ceilings are to be determined via a market rate survey.

The problems posed by an hourly unit are best explained by example. It is entirely possible, and perhaps even advisable, for a child care provider to establish a fee scale of $90 per week, $20 per day, and $5 per hour. This sort of a rate structure supports the economy of scale: the cost of providing care on a full-time basis is, per hour, less than the cost of providing care for only a few hours. The major reason is that providers must meet mandated staff-to-child ratios, overhead costs, and health and safety standards regardless of whether a child is there for the full day or just a few hours. As we have stated earlier, the economic viability of a child care center is often dependent upon full enrollment. It is in the providers interest, therefore, to establish fee policies and enrollment which encourage the use of full-time care and generate as much revenue as possible from families who use the program on a part-time basis.

Because it is difficult to find parents whose schedules mesh so that two part-time children can be combined to fill a full-day slot, many child care providers establish specific part-day schedules and do not allow parents to purchase care on an hourly basis. Others do not make part-time care available at all. In this case, a child could attend the program for only a few hours a day, but the family would be responsible for paying the full-time fee.

If DHS employed a methodology which established hourly rates by dividing the provider's daily rate by ten, the provider described above would be included in the market rate survey as having a rate of $2 per hour, instead of the $5 per hour they actually charge. This would keep the maximum daily rate stable, but would result in a significant financial loss to the provider in cases where parents use the program for only a few hours a day. If, however, DHS used the $5 hourly rate charged by the provider as its sole unit of service, the daily rate could be as high as $50, far above what the provider actually charges for full-time care. An alternative would be to divide the daily rate by an average number of hours (e.g. six or six and one half), which in this case would result in an hourly rate of just over $3. This might be an acceptable compromise from the provider perspective (the hourly rate would be lower but the daily rate would be higher) but it could still result in significantly higher costs for DHS.

In short, assuming that most families receiving income eligible child care subsidies need full-time care, **cost neutrality for both the provider and DHS is virtually impossible when the change to an hourly rate is made**.

Maryland is one of the few states which has instituted an hourly unit and is happy with it. Maryland established an hourly rate ceiling by dividing the full-day rate by 6.5. If most clients were receiving full-day child care, this policy would have increased the total costs substantially. However, in order to control costs, caseworkers are not permitted to authorize more than 6.5 hours of care per day without supervisory approval. This works in Maryland, we are told, because a majority of the clientele consists of clients who need only part-time care. It is also important to note that the reimbursement rate ceilings for all categories of child care were increased significantly when the hourly rate was implemented, so that no provider suffered a loss. In addition, extensive provider training was conducted prior to introducing the new unit of service. All of these factors have been attributed to Maryland's success in implementing the change.

Kansas has recently attempted to shift from a daily to an hourly unit of service. Due largely to the reduction the shift causes in reimbursement rates for providers who serve children less than seven or eight hours a day, there has been strong opposition to the policy.

Some states also report that hourly units require more staff time and paper work than daily or weekly units. Several years ago, the Arizona Department of Economic Security shifted from an hourly unit to full and half-day units because they found that the hourly unit was an administrative burden on the department and the providers. The Central Agencies in Florida (non-profit agencies which administer all child care funds) currently use an hourly unit only for JOBS clients, with a full day used for all others. An internal study in one of these

agencies indicated that the amount of time necessary to process clients with hourly rates was significantly longer--sometimes twice as long--as the time necessary to process clients with daily rates.

The difficulties in both cases have to do, in part, with the states' practice of prescribing the precise hours for which clients will be subsidized. Prescribing the exact hours a client may receive subsidized care requires changes in the certificate each time the client experiences a legitimate schedule change, something which happens frequently with people in low wage, hourly jobs. The increase in administrative burden which is associated with hourly rates can be reduced by providing more flexible vouchers.

Daily Rates

Daily rates are easier to administer than other units of service because they allow more flexibility in the actual times children spend in child care. Provider reimbursement is also more realistic, because staff ratios do not permit a reduction in the personnel cost each time one child leaves the program. In addition, DHS cost projections are easier because there is less variability in the cost of each client.

The disadvantages of using a daily rate are, however, quite obvious. Establishing a single, daily unit of service means that DHS would be paying for the cost of an entire day even if a child needs care for only a portion of the day. The cost implications of a daily unit of service will ultimately lead DHS to create a half-day rate in addition to the daily rate, defeating the goal of having a single unit of service.

Half-Day Rates

No single unit of service will provide a solution which assures both that DHS pays only for the exact hours of care used by its clients and that provider costs are reasonably reimbursed. The half-day unit imposes some losses and some gains on both sides. Half-day rates will subject DHS to less administrative burden than would hourly rates, and the reduction can be even greater if the vouchers are written so that the client has a given number of units to spend during the week or month and does not need to return to DHS for every schedule change. At the same time, half-day rates do not create the kind of inequity in cost for part time and full-time care which is present in a daily rate.

The recommendation is, therefore, that half-day rates be the unit of service which DHS uses, and that child care certificates be written to provide maximum flexibility to both the client and the provider. Two examples of how the half-day unit would be implemented are included below.

Example # 1

Ms. Smith is a part time student and is currently receiving child care subsidies for her 18 month old daughter. She attends classes three days per week from 11 a.m. to 2 p.m., and is authorized for 12 hours of child care per week (10:30 a.m. to 2:30 p.m., allowing one-half hour travel time each way) at the rate of $2.00 per hour. Total current cost is $24.00 per week.

With the half-day rate, Ms. Smith would be given vouchers for three half-days each week, permitting her to receive care up to five hours per day, three times a week. The exact hours of care would not be specified on the certificate; Ms. Smith would be permitted to negotiate with the provider and arrange a schedule of care which best meets her needs, so long as she does not exceed three units of care, at a maximum cost of $7.50 per unit. The total cost would be $22.50 per week.

With a half-day rate, Ms. Smith obtains greater flexibility in her use of child care, and DHS incurs about the same cost. Administrative costs are also reduced, since the DHS intake worker need not be notified of a change in Ms. Smith's hours unless this change would increase or decrease the number of units of service needed.

Example # 2

Ms. Jones generally works on Monday, Wednesday and Friday from 8:30 a.m. to 3:30 p.m. and on Tuesday and Thursdays from 10:30 a.m. to 2:00 p.m. She is currently approved for subsidized child care for her 1 year old daughter at an hourly care rate of $2.00 per hour. Allowing for travel time, she is authorized to receive child care from 8:00 a.m. to 4:00 p.m. Monday, Wednesday and Friday and from 10:00 a.m. to 2:30 p.m. Tuesday and Thursday. While the total hours Ms. Jones works stays constant, her actual schedule changes frequently, and new certificates are produced at least monthly to account for the varying hours. The total weekly cost of care is $56.

With the half-day rate, Ms. Smith would receive vouchers for eight half-days. At $7.50 per day, the total cost would be $58. Because the vouchers do not specify the times at which care may be used, the certificate does not need to be changed unless her total hours of work per week change.

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Establishing Half-Day Rate Ceilings

During the summer of 1992, DHS conducted a market rate survey. Providers were asked to specify the rates they charged according to more than 200 categories. These were divided equally among hourly, daily, weekly and monthly rates. Half were for part-time care (less than five hours per day) and half were for full-time care (five hours or more per day). The remainder of the distinctions had to do with the the age and special needs of the children. Separate rates were requested for infants, toddlers, preschoolers, kindergartners, children cared for both before and after school, children cared for before school only, children cared for after school only and school age children. In addition, within each of these categories, separate rates were requested for children with special needs and children with basic needs.

A majority of the rates which providers were requested to report were the rates attached to DHS Purchase of Service contracts. These were also divided by hourly/daily rates, by age and by full-time/part-time care, but they were also divided according to the DHS categorization of the child, i.e., Protective Child Care, Special Needs and Basic Needs. These rates were used in DHS's final calculation of the market rates the agency would pay, but only in relation to the protective services and special needs rates. DHS believed that the freezing of the rates which had occurred over the past several years made POS rates inappropriate as a reflection of the market, and thus they were not included in establishing the basic rate ceiling. However, there was no other alternative for calculating a rate for protective services child care, and so few other providers reported special needs rates that reliable market rates could not be obtained.

One of the matrices (all are identical but providers were asked to report their full-time and part-time rates on separate forms) is shown on page 68. As might be expected with the level of complexity of the matrix, most answers from all of the providers were blank.

In analyzing the data from the survey, DHS developed a scheme with 72 rates, 24 each for day care centers, family homes and group homes. Rates were divided in three ways. First, rates for basic care, protective care and special needs care were identified. Within each of these categories, hourly and daily rates were identified, and were further divided by the age of the child. The chart on page 69 shows the resulting maximum payment rates, calculated as the 75th percentile of the market rates of the providers reporting in each category.

The rate survey results are of interest to this study for two reasons. First, the recommendation that DHS move towards a single half-day rate, as opposed to hourly and daily rates, presents difficulties for implementation because questions were not explicitly asked about half-day rates. Second, one of the goals of this project is to assist the agency in developing a market driven rate setting system, and that will require some modifications to the structure of the survey when it is repeated.

Insert copy of blank questionnaire

Insert copy of survey results

Converting the Data to Half-Day Rates

For a host of reasons which are discussed later in this report[21], the 1992 survey resulted in data on rates which are not appropriate for use in determining market rate ceilings. An extensive examination of those data during the course of this project suggested that much of the information is inaccurate and that, due in large part to the inaccuracies, DHS was unable to analyze the data according to its original plan. There can be under these circumstances little confidence that the resulting rates reflect actual market conditions.

Recommendation: DHS should conduct a new market rate survey within the next twelve months, using an entirely different format.

Both the problems with the 1992 survey and the recommendations regarding the use of an entirely new unit of service suggest that new rate data are needed as soon as possible. While the data manipulations recommended below will permit the agency to implement a half-day rate within the next few months, that solution is a temporary one at best. A discussion of the format and issues to be addressed in a future survey is included in Appendix B.

In the meantime, however, DHS must establish market rate ceilings. Federal regulations require that the rates for some programs be based on a market survey, and the goals of a seamless subsidy system demand that reimbursement ceilings must be the same for all funding streams. For the time being, therefore, the agency and the providers are left with the available data.

Aside from all of the obvious problems with the survey information, the most serious problem from the point of view of the recommendations of this report lies in the fact that the survey did not ask providers for a half-day rate. As a result, unreliable data must be used to create a rate they were not even designed to address.

One of the anomalies of the survey is that it asked providers to report daily rates for part-time care. One possibility for the calculation of half-day rates would, therefore, be to interpret these as the reported half-day rates and to calculate the 75th percentile for each one. There are two reasons this is not the most appropriate approach. First, the number of providers reporting rates for part-time care were generally smaller than the number reporting full-time care. Because DHS did not weigh the responses by the number of children served, this means that some of the rates would have to be based on fewer than half a dozen reported rates. The numbers are simply too small for an accurate calculation. Second, there are enough anomalies in the overall results, e.g., special needs pre-schoolers served in day care centers are charged less than basic needs pre-schoolers in day care centers, that the results are suspect. When one puts both of these factors together, one would expect that the half-day

[21]See "Issues To Be Addressed In Future Child Care Market Rate Surveys" in Appendix B, page 90.

daily rates would be even less reflective of the actual market than the overall results of the survey data as they are now used.

Using the rate survey in a slightly different manner, however, reasonable rates might be developed for half-day units. The data permit the calculation of the relationships between full-time daily rates and half-time daily rates and between each of these and hourly rates. On average, the daily rates for full-time care are between nine and nine and one-half times the hourly rates. On average, the daily rates for part-time care lie between four and five times the hourly rates.[22] The precise ratios vary by the type of care, but both hourly and daily rates need to be taken into account in the calculation, because many providers reported only one or the other.

Recommendation: **DHS should establish half-day rate ceilings according to the following formula:**

1) **Convert each basic care daily rate into an hourly rate by dividing by nine.**

2) **Average the result of step one with the reported hourly rate for the specific type of provider and age of child.**

3) **Multiply the results of step two by 4.5.**

Given the rate ceilings which DHS has already established (based on the 1992 market rate survey), the results of this recommendation are shown in Table VI, below.

Table VI
Half-Day Rate Ceilings for Basic Care[23]

Age Group	Day Care Centers	Family Homes	Group Homes
Infant/Toddler	$9.50	$8.11	$7.69
Pre-School	$7.90	$7.12	$7.12
Kindergarten	$7.43	$6.69	$7.12
School Age	$7.60	$7.29	$7.12

[22]These are calculated using only the rates reported for basic needs and excluding all school age children, including kindergartners.

[23]These rates represent the result of data manipulations of the existing rates. It is assumed that DHS will increase them by the percentage increase allowed in the current appropriation bill.

The methodology described above, and the rate ceilings which result from it, is far from perfect. But additional manipulation of the 1992 survey data is unlikely to produce anything much better. One could, for instance, calculate the exact relationship between daily and hourly rates for each type of care. Such precision is, however, inappropriate when the basic data are unreliable. Until a new survey can be conducted, the proposed methodology provides as good an alternative as exists.

Establishing a Special Needs Rate Adjustment Factor

Reporting of special needs rates by providers represented one of the larger problems in the survey data. As the survey data on page 69 indicates, many of the rates reported for special needs care were actually lower than those for basic needs care, even when reported by the same type of provider. Moreover, the only source of data on protective services child care rates came from providers with DHS purchase of service contracts.

As a result of the survey, then, there is little basis for determining a special needs supplement. Moreover, as was mentioned in our discussion of the special needs rate and the Americans with Disabilities Act (see Appendix A), even requesting that child care providers report separate rates for serving children with special needs could be considered a violation of the Act. All of this argues for a simple, somewhat arbitrary supplement for special needs children.

Recommendation: **DHS should establish a rate adjustment factor of 1.25 of the basic rate (based on the type of provider and age of child) for providers who serve children with special needs, including protective services cases.**

In the examination of other states, we found that special needs supplements ranged between 30% and 90% of the basic needs rates. In the Iowa survey, however, virtually none of the special needs rates, however analyzed, approach those levels. We assume that this represents both real differences between Iowa and other states, and inaccurate reporting. As an initial starting point for implementing a special needs supplement, an adjustment factor of 1.25 of the basic rate may represent the best compromise.

In order to address the ADA violations which may result from the use of a special needs rate adjustment factor, Iowa Code and Rule will need to be amended to include language which permits child care providers to request a rate supplementation when additional costs are incurred in serving a child with special needs, even when the program does not charge private, fee-paying families for these additional costs. It may also be necessary to request a federal waiver. (See Appendix A, for a further discussion of this issue.)

Workplan: Steps, Time Frames And Resources

Recommendation

1. DHS should establish consistent policies and procedures for all child care funding streams, so that 1) consistent forms and procedures are used, 2) all funding streams may be used with all legal providers, 3) all providers are paid their private rate, up to the 75th percentile of the market rates, with rate supplements allowed for children with special needs, 4) policies on absences and breaks in service are consistent across funding streams, and 5) the child care disregard is eliminated.

Steps	*Time Frames/Resources*
A. Revise regulations and manuals related to child care.	Revision of the regulations should be possible within the next three months, with publication for comment coming at that point. Final promulgation should occur within 60 days of publication, if permitted by Iowa administrative procedures. Thus, the total process should take approximately 5 months.
B. Develop a consistent set of forms to be used for the administration of all child care subsidies.	Revision of the forms should be a relatively simple process, and could be completed by the time the regulations are finalized.
C. Calculate new rates based on 1992 survey data.	Calculation of new rate ceilings can occur immediately. Publication of the rates may take additional time, depending on administrative procedure requirements.
D. Eliminate the child care disregard.	In order to implement this recommendation, Services staff will need to have the capacity to access IV-A funds to support the cost of child care provided to public assistance recipients (see Recommendation 4 below.)

Recommendation

2. DHS caseworkers should no longer be required to classify cases according to their eligibility, but should instead simply record the relevant eligibility characteristics of each child and family, allowing the fiscal office to determine the most appropriate funding stream according to a pre-determined hierarchy.

Steps	*Time Frames/Resources*
A. Re-program SRS to handle multiple client eligibilities.	The re-programming at this level should not require an extensive effort, assuming the computer is not asked to make the eligibility determination, but merely to record the information. (See Recommendation 4 below.) Depending on the other priorities assigned to the data processing staff, this process could require anywhere from three months to one year.
B. Re-design the eligibility forms to collect the information necessary for determining eligibility for all child care programs.	Design of the forms should require minimal effort, but it will demand coordination between Services and Economic Assistance.
C. Train caseworkers in use of new forms.	While caseworker training may require a substantial number of work days, it is relatively simple training and can be accomplished within a couple of months at the outside.

Recommendation

3. DHS should amend its Title IV-A and Title IV-E state plans to include child care as an allowable service.

Steps	*Time Frames/Resources*
A. Revise state plans.	Revision of the plan will require minimal effort. The most difficult aspect will lie in the development of definitions for Title IV-A Special Needs child care. This step should be completed within a couple of months of its initiation.
B. Obtain federal approval of the plans.	Obtaining federal approval involves time frames outside the control of DHS.

Recommendation

4. DHS should develop an automated system for determining which funding stream will be used for subsidizing child care for individual children and families.

Steps	*Time Frames/Resources*
A. Write a new computer program to determine eligibility for all child care funding streams.	The programming will probably require an extensive effort. Depending on the other priorities assigned to the data processing staff, this process could require anywhere from six months to two years.
B. Obtain the hardware necessary for running the program, including collecting the intake information and centrally determining the eligibility classification.	The amount of hardware needed will depend on the final configuration. If DHS maintains intake as an internal function, at least one PC will be needed in each county office, with appropriate links to the central office. If DHS contracts with CCR&Rs for intake, the primary need will be for the linking hardware.

C.	Design the software to link intake data, invoice information and claiming data.	For effective implementation, this will be done simultaneously with the first step. Linkages between county and central offices should be relatively simple and require minimal time. Linkages among intake data, invoices and federal claims represent a more extensive effort which can still be done within one to two years, depending on the priority given the project.

Recommendation

5. DHS should develop an automated mechanism for projecting the expenditures to which it is already committed for clients receiving child care at the present time.

Steps		*Time Frames/Resources*
A.	Write a new computer program to connect child care data from DEA with child care data from Services.	The effort involved will depend on the mechanism used. If data from the two systems are downloaded to a PC, the connection could be made within three to six months. If data are to be directly translated from one program to another, the effort may take one to two years.
B.	Write a computer program to determine the probabilities of clients in one child care funding stream moving to each of the others and to determine the length of time clients spend in each funding stream.	Writing the program for this should not require a great deal of time, once the configuration of the data is known. An initial program, to be tested later with actual data, can be generated within three months.
C.	Develop regular reports which project future child care expenditures based on the above data.	Again, this is not an extensive effort, particularly if done on a PC. Mainframe programming takes longer, but DHS has mainframe programmers and does not have staff to support PC programming. Reports can only reasonably be produced, however, after at least a year of data collection.

Recommendation

6. DHS should consider contracting with CCR&R agencies to administer all child care subsidies and to serve as a single point of entry for families in need of child care assistance.

Steps	*Time Frames/Resources*
A. Conduct a review of existing CCR&R agencies to determine the extent of their capabilities and their coverage of the state.	Much of this information is already in DHS possession. Therefore, this is conceived of as largely an internal review of known data, along with some exploratory discussions with CCR&Rs.
B. Calculate the cost of caseworker time currently spent on child care and compare to the cost of contracting, making estimates based on discussions with CCR&Rs.	The information on caseworker costs should already be available within DHS. The entire process should be completed in time for contracts to be awarded and approved for the next fiscal year.

Recommendation

7. DHS should group the care it purchases into three broad categories: legal care, accredited care and therapeutic care.

Steps	*Time Frames/Resources*
A. Write new regulations defining legal care and accredited care, and clarifying which services are and are not subsidized by child care funding streams.	The new definitions are included in this report; therefore, the actual writing of the regulations should require minimal time. Promulgation of final regulations should be possible no later than January 1, 1994.

Recommendation

8. The DHS voluntary family child care registration system should be made mandatory for all child care providers who care for six or fewer children in the provider's home.

Steps	*Time Frames/Resources*
A. Draft new legislation and submit for introduction in the next session.	This can be accomplished within a one month time period.
B. Submit budget request for additional staff to handle new registrations, including staff to respond to complaints and make spot checks.	The initial year's response may not be very large, except in relation to homes where the care is subsidized by DHS. No more than twice the number of staff currently devoted solely to registration should be required.

Recommendation

9. Children who are receiving protective services should be placed in accredited care. If accredited care is not available, these children should be placed in a licensed or registered child care setting.

Steps	*Time Frames/Resources*
A. Write new regulations with this stipulation.	This should be included in the regulatory process outlined for Recommendation 1 above.

Recommendation

10. DHS should establish two rate options for subsidized child care: a basic rate and a special needs supplement.

Steps	*Time Frames/Resources*
A. Write new regulations defining the rate categories.	This can be included in the regulatory process outlined for Recommendation 1 above.

Recommendation

11. A separate rate category should not be established for therapeutic child care. Funds from DHS and DOE should be coordinated to support these programs and additional potential funding sources should be explored.

Steps	*Time Frames/Resources*
A. Identify non-child care funding sources for the services associated with therapeutic care.	Discussions within DHS and between DHS and DOE will be required. Time estimates for the successful completion of these discussions cannot be made.

Recommendation

12. The eligibility definition for special needs and protective services day care should be amended.

Steps	*Time Frames/Resources*
A. Write new regulations defining special needs and protective services day care.	This can be included in the regulatory process outlined for Recommendation 1 above.

Recommendation

13. Incentive grants, designated protective child care referrals, and consumer education materials should be developed to encourage providers to become accredited.

Steps	*Time Frames/Resources*
A. Amend the CCDBG federal plan to target grants to programs working towards or maintaining accreditation.	Writing the plan should require minimal time. Other parts of the process, such as determining the procedures for awarding grants, may require more time (see Recommendation 14 below), but the entire process should be ready for implementation at the beginning of the next fiscal year.

B.	Develop and distribute public education materials.	This task could be completed in cooperation with the CCR&Rs. The cost will vary, depending on the level of effort and the "glossiness" of the products. It may be possible to secure funds from the private sector to support this effort.

Recommendation

14. An Integration/Quality Improvement Grants program should be established to assist child care providers in becoming accredited and in serving children with special needs.

Steps		*Time Frames/Resources*
A.	Amend the CCDBG federal plan to target grants to programs working towards accreditation and/or serving children with special needs.	This can be included in the plan amendment process outlined for Recommendation 13 above.
B.	Identify additional sources of grant funding for these purposes.	This effort will require discussion both internal to DHS and between DHS and DOE.
C.	Prepare a Request For Proposal and determine the procedures for awarding grants.	This process may require several months, but should be ready for implementation at the beginning of the next fiscal year.

Recommendation

15. DHS should consider establishing a limited number of provider contracts in low-income communities where the need for subsidized child care is great, the supply if limited to a few child care centers, and freezes on the availability of subsidy funds have placed these centers in financial jeopardy.

Steps	*Time Frames/Resources*
A. Carefully review enrollment in former POS programs which are located in high need, low-income neighborhoods to determine if the freeze on intake has had a deleterious effect on child care supply.	This process could be completed in cooperation with the CCR&Rs, and will require the following steps: 1) identification of communities where a high percentage of low-income families with child care needs live or work; 2) identification of the range of child care providers available in these neighborhoods; and, 3) an assessment of any enrollment declines which have occurred in child care programs in these communities due to the lack of subsidy funds. Depending upon available data, it is anticipated that this process will take several months.
B. Identify the funding sources historically used to fund the families who attend these programs (e.g. Protective, IV-A, CCDBG, etc.)	This should be a fairly simple process.
C. Encumber funds in each of the sources identified above, and use these funds to support contracts with specific providers.	Assuming that Recommendation 4 is implemented, this, too, should be a fairly simple process. Without automation, however, this step will be difficult to implement.

Recommendation

16. DHS should use the half-day unit as its sole unit of service.

17. DHS should establish half-day rate ceilings according to the following fomula:

    1) Convert each basic care daily rate into an hourly rate by dividing by nine.

    2) Average the result of step one with the reported hourly rate for the specific type of provider and age of child.

    3) Multiply the results of step two by 4.5.

Steps	*Time Frames/Resources*
A. Revise regulations to specify the half-day unit as the sole unit of service.	This can be included in the regulatory process outlined for Recommendation 1 above.
B. Establish half-day rate ceilings, using the 1992 survey data.	This can be done within the space of one month, using the formula in Recommendation 17 above.

Recommendation

18. DHS should establish a rate adjustment factor of 1.25 of the basic rate (based on the type of provider and age of child) for providers who serve children with special needs, including protective services cases.

Steps	*Time Frame/Resources*
A. Revise regulations to include a rate adjustment factor.	This can be included in the regulatory process outlined for Recommendation 1 above.
B. Amend Iowa Code and Rule, and explore the need to request a federal waiver, to address potential conflicts with the ADA.	We are unable to estimate the time frame for this step.

Recommendation

19. DHS should conduct a new child care market rate survey within the next twelve months, using an entirely different format.

Steps		*Time Frames/Resources*
A.	Design new rate survey instrument.	Intensive work by one or two staff persons, with lesser assistance by others, should produce a short questionnaire within two months of the starting time.
B.	Design sampling plan for the survey.	A sampling plan can be developed within two to four weeks of the initiation of the process.
C.	Write computer program for data entry and arrange for data to be entered into the computer.	Programming for the data entry can be done by one person within a one month period.
D.	Perform follow-up to increase response rate.	Follow-up with respondents could require an extensive effort. Involved are identification of non-respondents and either mailing of postcards or phone calls to those providers. This may require up to two staff persons for a month, but this may be reduced if CCR&R agencies are recruited to assist.
E.	Analyze results to establish new rate ceilings.	The most difficult part of this process is likely to be the editing of the data. Three to four staff persons should be involved, probably for two months. The entire process, can, however, be completed within a twelve month period.

Appendices

Appendix A

Special Needs Rates and the ADA: A Potential Conflict

The Americans with Disabilities Act (ADA) prohibits child care providers from passing the cost of accommodating a child with a disability along to the parents of that child, unless the fees are increased uniformly for all parents. The one exception to this prohibition is in cases where the additional cost is for a professional service that is billed independently from child care (e.g. occupational, physical, or speech therapy) and is above and beyond the child care provider's legal responsibilities.[24]

While the differential rate provisions included in the act apply only to private fee paying clients, the act presents a problem for child care providers who serve publicly funded children as well. The crux of the problem lies with provisions of the Federal IV-A regulations and Iowa State Code and Rules, which prohibit providers from charging the state a rate which is higher than that which they charge to the general public.

The two laws described above put child care providers who seek to serve children with special needs in a catch-22. If they charge a higher rate to all families who have children with special needs, whether or not they receive child care subsidies, they may be in violation of the ADA. If they limit increased fees to only those families who receive child care subsidies, they are in violation of Iowa Code and Rule. The only way to comply with both laws may be to increase the fees for all the families they serve or cease charging a special needs rate and find other means to cover the cost of this care.

In its rate survey of child care providers, DHS has asked for information on both special needs and basic care rates. This question assumes, rightly in most cases, that most child care providers are unaware of the ADA and do not understand the implications of this new law with regard to rate setting.

Depending upon the program and the needs of the child, the cost of caring for children with special needs can be significantly higher than the cost of caring for other children. Increased costs for additional staff, training, and equipment are the most frequently cited impediments to the average provider accepting a child with special needs. Yet increasing the fees for all families to cover the cost of accommodating a few special needs children is often not a viable option. Child care fees are already more than many families can afford. Child care providers who offer high quality services already find it difficult to survive in a market which typically sets fees far below

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[24]For further information see Caring for Children With Special Needs: The Americans With Disabilities Act and Child Care, Child Care Law Center, 1993.

the actual cost of care; adding on any increased costs which may result from serving children with special needs is, in most cases, just not economically viable.

There are at least five alternative courses of action DHS can take in addressing this problem:

1) Ignore the ADA language.

This amounts to making no change at all. At present, it appears that DHS is not violating the ADA, and in fact DHS is permitted to pay a higher rate for children with special needs, so long as that rate is not above the amount the provider charges to private, fee-paying families. Those at risk of being sued under the ADA are the child care providers, not the agency.

This strategy amounts, however, to encouraging providers to remain in violation of the law. While DHS may not be literally violating the statute, continuing this stance would contribute to the providers doing so, and is therefore not recommended.

2) Provide subsidized child care assistance only to children with special needs who are served in segregated programs.

Although programs which serve children with special needs exclusively often have private rates, in reality, most of the families they serve receive some form of public suosidy. It is unlikely, therefore, that these programs would be in violation of the differential rates provisions of the ADA.

Serving children with special needs only in segregated programs is not recommended for three important reasons. First, this option risks violating the overall intent of the act, which was to encourage integration of children with special needs and to permit segregation only when necessary to ensure equal opportunity. Second, segregation goes against recent research and successful practice which stress the importance of promoting integrated settings for children with special needs. Third, based on the department's experience in negotiating POS contracts with segregated programs, segregation is likely to result in significantly higher rates than those incurred in a "mainstreamed" setting.

3) Purchase care for children with special needs via contracts, rather than certificates, using only those funding sources which do not limit reimbursement to the amount a provider charges the private sector.

DHS could use only those funding sources which do not limit reimbursement to the amount a provider charges the private sector (e.g. 25% CCDBG early childhood development and quality set aside, SSBG, state general fund, IV-B and IV-E) to fund purchase of service contracts for child care services to children with special needs.

This option would, however, go against the department's goal of developing a coordinated, seamless child care subsidy system. In addition, it would restrict the department's ability to

maximize federal funds and divert funds which are needed to support quality initiatives into child care subsidies.

4) *Amend Iowa Code and Rule, and if necessary, request a federal waiver, to permit DHS to pay a rate supplement which may exceed the fees charged to the private sector in cases where a child has special needs.*

The implications of the ADA were not fully understood or taken into consideration when federal policies regarding market rates for child care were developed.[25] Indeed, the preamble to the JOBS regulations clearly states: "we recognize the need for making higher child care payments for certain children who are handicapped or have other special needs...[and have therefore allowed states] to establish a special needs rate category." The regulations also permit states to set a separate statewide limit for child care for children with special needs. [45 CER 255.4(a)(1)(ii)] It appears, therefore, that the federal government was clear in its intent that states be allowed to establish higher rate ceilings for serving children with special needs, and there is no indication in the 'regulations or the preamble that consideration was given to the fact that child care providers might be prohibited by the ADA from charging such rates. To this end, HHS might look favorably upon a waiver proposal on this point.

By waiving the requirement that providers either violate the ADA or charge all parents for the cost of serving children with special needs, a special needs rate supplement would achieve two important goals. It would encourage a wider range of providers to serve children with special needs by supporting the additional costs which may be incurred. At the same time, however, a rate supplement also acknowledges that not all children with special needs require expensive accommodations, and therefore would base reimbursement on the actual costs incurred in providing the service rather than a flat rate.

We believe that this option represents the most appropriate choice for DHS. However, despite the strong arguments in favor of this approach, state budget officials may balk at paying more for a service than is paid by the private sector. In this case, a fifth alternative could be considered:

5) *Average the costs.*

This is best explained by an example. Assume that a child care provider cares for 100 children, 10 of whom have special needs. The cost of basic child care is $75 per week and the cost of special needs care is $150 per week. Total weekly costs are, therefore, $8,250, or $82.50 per child per week when the cost of basic care and special needs care is averaged.

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[25]The ADA was not signed into law until July 1990, *after* the JOBS regulations were initially released. The public accommodations provisions of the ADA did not become fully effective until January 26, 1993, long after the final CCDBG, TCC, ARCC and JOBS regulations had been released.

In determining the provider's reimbursement rate, DHS agrees to pay $82.50 for any child, so long as this is not above the rate that the provider charges fee-paying families. If this provider averaged costs across all children, as envisioned by the ADA, the program would receive a rate of $82.50 for all subsidized children. If the provider maintained separate rates for basic and special needs care, the program would receive $75 per week for a basic needs child and $82.50 for a child with special needs (the rate ceiling established for this program.)

A major disadvantage of this approach is that it would require providers to raise fees for private clients (e.g. the provider in our example could not request a rate of $82.50 for all children unless fee-paying families are charged the same rate.) Another obstacle is that it might result in averaged rates which are above the 75th percentile. Although federal regulations permit states to set a separate statewide limit for children with special needs, it is unclear whether they would be permitted to approve higher rates for all subsidized children which resulted from averaging costs.

Among the most compelling arguments against this option is its complexity. Without an automated provider file, implementing a rate structure based on averaging costs could be difficult. A separate, averaged rate would need to be calculated for each provider who accepts children with special needs, and would need to be updated periodically. It is likely that providers would also need targeted training in how to average rates, as well as in the legal implications of the ADA.

Averaging costs would, however, encourage providers to comply with the ADA. It could also result in increased revenues for programs which serve large numbers of subsidized children and, for these programs at least, would encourage them to increase the percentage of children with special needs which they serve.

Appendix B

Issues To Be Addressed In Future Child Care Market Rate Surveys

In future years, the kinds of data manipulations recommended in this report should not be necessary simply because the basic structure of half-day rates and special needs supplements will already be in place. On the other hand, it is not to be expected that all child care providers will automatically begin publishing only half-day rates simply because DHS has selected this as its sole unit of service. Therefore, the structure of the rate survey instrument and of the analysis which is to follow requires careful consideration.

The Survey Instrument

The 1992 survey instrument appears to have been formatted for ease of data entry. This is an important consideration and one on which many surveys flounder. If the data are not easy to enter into the computer, the result is often that a great deal of data is collected but analysis is either late or abbreviated or both.

On the other hand, the instrument must also guide the providers to the right places for entering answers. If the providers are not clear as to what they should and should not be reporting, the information which is put into the computer will be of little use. Something like this appears to have happened with the special needs rates in this survey. It may have also occurred with hourly rates for part-time care, because it appears that at least some providers of school age child care reported the same rate for both hourly and daily attendance, probably meaning that they only had a session rate and that a family would be charged the same amount whether the child attended for an hour or for three or four hours.

The standard mechanism for constructing a survey instrument to focus the respondent's attention on the appropriate issues is called "branching" or "skip patterns." Rather than asking providers to fill in all of the blanks appropriate for their service, the instrument asks questions such as, "Have you published an hourly rate for infants?" If the answer is "yes," the respondent is instructed to move to the next question, which asks for that rate. If the answer is "no," the respondent is instructed to skip to another section of the instrument, where the question might be: "Have you published a daily rate for infants?"

Equally important here is the definition of terms. While terms were defined for respondents in the DHS survey, it is to be expected that many respondents will not read anything other than the questions themselves. Definitions will not be used unless they are embedded in the questions. Thus, in asking the question, "Have you published a daily rate for infants?" the question should probably be phrased in one of the two following ways:

1) Have you published a rate for caring for an infant for a full day, where a full day is any amount of time over five hours?

2) Do your published rates include a fee for infants for any amount of time in a day greater than five hours?

Both in order to comply with the requirements of the Americans with Disabilities Act and in order to be consistent with the rate setting scheme proposed in this report, the rate survey should only ask questions about basic care rates. The result should be a scheme which provides separate rates for the following classifications:

Proposed Rate Scheme for Child Care Providers			
Age of Child	Hourly	Half-Day	Daily
Infant			
Toddler			
Pre-School			
Kindergarten			
School Age			

Each child care provider would have a maximum of fifteen rates to report, with most reporting far fewer than that. A provider would only report all levels of rates if it actually published each type of rate and it provided care to all ages of children.

Converting Hourly and Daily Rates to Half-Day Units

Once the data have been collected, it becomes necessary to establish a formula for converting rates to the half-day unit which is to become the standard by which DHS pays its subsidies. For those who report a half-day rate, there is no issue; that rate can be taken as it stands and entered into the calculations. In fact, the questionnaire should be constructed in such a way that these providers are not even asked questions about hourly and daily rates.

For the providers who report no half-day rate, a calculation will need to be developed which will construct such a rate. This calculation should meet two criteria: first, it should provide a standard way to analyze the data for each provider in the same way; and second, it should result in a half-day rate imputed to each provider which is consistent with the rates they actually report.

The experience of the 1992 survey suggests that some providers will report both hourly and daily rates, but that the majority will report only one or the other. The methodology for converting

hourly and daily rates to half-day rates must, therefore, rely on factors which apply across providers, rather than on some formula analyzing each provider's data in isolation.

What is proposed here is a process with the following steps:

1) For all providers in a category of care (e.g. all day care centers or all family child care homes) the daily rates reported by all of those using daily rates would be averaged together.

2) For all providers in a category of care, the hourly rates reported by all those using hourly rates would be averaged.

3) The average daily rate should be divided by the average hourly rate to arrive at an average ratio of the hourly rate to the daily rate.

4) One half of the resulting ratio would be multiplied by each hourly rate to impute a half-day rate to those providers reporting that unit. In general, this should result in a half-day rate somewhat under five times the hourly rate.

5) For providers reporting the daily rate, that rate should be divided by the ratio produced in step three and the result should be multiplied by five. That should produce a rate slightly higher than one-half of the daily rate.

6) For providers reporting both hourly and daily rates, the results of the two operations should be averaged.

7) Once each provider has a final half-day rate, either reported directly or imputed through the above methodology, the rates can be arrayed and the 75th percentile determined.

The point of the calculation described above is to arrive at figures which are as realistic as possible in approximating the actual cost structure which is at work among child care providers. In general, child care staffing requirements are such that providers will need to charge proportionately more for hourly care than for daily care. Half-day care will fall in the middle. By constructing a methodology which pays for half-day at something less than five times the hourly rate and something more than half of the full-day rate, a reasonable approximation can be made to the actual cost of providing care for a half-day.

The Sample

Planning for the next survey should not, however, end with consideration of the questionnaire and the analysis. Equally important is the question of who gets surveyed. The 1992 survey placed an enormous resource burden on DHS, without the results proving sufficiently reliable to justify the effort. Part of the effort involved the sheer number of data elements which had to be

edited, data entered and analyzed. But part of the effort involved the number of providers involved. Questionnaires were sent to nearly 10,000 providers, with 2600 returning them. It is not clear, nor can it be, whether those who returned the questionnaires were in any way different from those who did not. In other words, the validity of the data in representing what the child care market actually looks like is suspect, despite DHS' effort to obtain as complete a picture as possible. The survey team could only use the data it got, not the data it wanted.

The standard way in which response rates are improved during surveys is through follow-up with the potential respondents. When it is noted that some respondents have not yet returned their completed instruments, a postcard is sent or a telephone call is made to urge them to do so. With nearly 10,000 instruments being sent out, this was not possible in the child care provider survey.

Follow-up might have been possible, however, if DHS had surveyed a much smaller sample of providers. Given the right sampling methodology, one can have at least a reasonable certainty that the entire universe is represented. Sampling would permit the total number of instruments needing to be analyzed to be reduced, while simultaneously providing greater assurance that the results were representative, rather than the result of an unknown self-selection process.

Sampling is recommended for the next survey, with two stipulations. First, the drawing of the sample should occur on a stratified basis, so that all sectors, e.g., all geographic regions and both urban and rural areas are represented. Second, and perhaps more importantly, DHS needs to do follow-up (or arrange for CCR&Rs to do follow-up) with respondents in order to ensure higher response rates. Sampling will depress the total number of responses needed, but if the same rate of response is received from a sampling methodology as from a full survey of all providers, with no assurance that self-selection is any less a factor than it was in this round, the results will be more suspect than those from the 1992 survey.

Regardless of whether DHS draws a sample or surveys the entire universe, it should coordinate its efforts with CCR&Rs around the state. In the 1992 survey efforts were made to engage the various child care provider associations in alerting providers to the survey and urging them to respond. That effort can go a step further, if the CCR&Rs are recruited as active participants in collecting the responses and assisting in following up with providers who initially fail to report their rates.

Determining the 75th Percentile

Federal regulations provide two mechanisms for determining the 75th percentile. States may use either the 75th percentile among all providers of a given type or the 75th percentile among all children receiving care. The latter represents in essence a weighted percentile.

DHS used the former method in the 1992 survey, primarily because staff recognized the questionable reliability of much of the information they received. Thus, a center serving 100

children at $20 per day was counted as one instance in determining the 75th percentile, as was a center serving 10 children a day at $25. As a representation of the market available to families, there are clear problems with this method. The results imply that 75% of the providers have rates less than the rate set by DHS, but the percentage of slots available at that level might be 90% or 50%. In other words, the results do not provide a reasonable picture of the actual availability of care in the market at that price.

The clearly preferable mechanism would involve determining the 75th percentile of the slots rather than of the providers. This requires that the survey instrument collect the number of slots paid for by each of the rates which the provider reports. DHS did collect this information during the previous survey, but the results do not appear to have been reliable. For example, many providers appeared to report six children receiving full-time care at a given daily rate, six children receiving full-time care at a given hourly rate, six children receiving part-time care at a given daily rate and six children receiving part-time care at a given daily rate, all from a provider with a capacity of six children.

Developing a very clear and simple survey instrument should help alleviate this problem. If providers are given an instrument that is sufficiently clear and easy to understand (and not overwhelming by its sheer size), they should be better able to tell DHS how many children they are serving at what rates.

In asking for the number of children served by the provider, the instrument also needs to be clear as to exactly which children the provider is being asked to count. A program which serves infants, toddlers and pre-schoolers may have the capacity to serve 25 infants, 25 toddlers and 25 pre-schoolers, but at the time of the survey only have an enrollment of 20 infants, 15 toddlers and 25 pre-schoolers. The 75th percentile can thus be different, depending on whether the number of children represents capacity or enrollment. Unfortunately, there is no clear and definitive answer on how this decision should be made. Some providers will have the ability to shift capacities from one category to another, depending on the total configuration of the enrollment. That argues against using capacity, because it could lead to different types of answers from different providers. On the other hand, actual enrollment at some times of the year is different than it is at other times. The 1992 survey was conducted during the summer, when enrollment is quite different from the rest of the year, and this fact argues against using actual enrollment.

To reduce the problems associated with whether to request data on capacity or enrollment, DHS should take three steps. First, the survey should be conducted during the school year and preferably during a month when there are no extended school vacations. Second, the survey should ask for the actual number of children enrolled at the present time (not the average). Third, enrollment numbers should be adjusted according to their proportion of the provider's licensed capacity, as shown in the DHS provider's file. In the example above this would lead to a report showing 25 infants, 19 toddlers and 31 pre-schoolers. While this does not provide an exact estimate of the capacity of the program, it does provide data which are consistent across

all programs and a better overall measure of capacity than simple enrollment figures, and it is capacity which reflects what is available to parents in the child care market.

Defining The Market Area

The final question to be addressed in regard to the survey has to do with the definition of the market area. At the present time, DHS is using the entire state as its market area. From a purely statistical perspective, that is a safe decision, because it increases the number of providers included in the analysis for the calculation of the 75th percentile. Statistical purity is not, however, the only criterion against which the results should be judged. The purpose of using market rates for child care subsidies is to ensure that families in all areas have genuine options as to the range of child care providers they use. If the providers in one area are consistently higher in cost than those in the rest of the state, families in that area will have fewer real options when the rates paid by DHS are defined by the remainder of the state.

There are at least three ways in which market areas could be defined. First and most obviously, they could be divided by geographical regions. DHS did this in its initial market rate survey for JOBS and TCC, but rejected this option in its most recent survey because of the small number of providers which would be used in the calculations for some of the regions. Given the size of the regions, they may not be the most appropriate market area.

Second, the state could be divided into urban and rural markets, with all rural markets receiving the same rate and all urban markets a different rate. The concern about sample size would be far less serious in this case. One would expect, moreover, that there would be greater similarity in rates between providers in Des Moines and providers in Sioux City than there would be between those in Des Moines and those in the rural counties in the same administrative region.

Third, the state could define its market areas by the median income of the families in each county. Some research suggests a strong correlation between median family income and child care rates.[26] Counties with the highest median family incomes tend to have the highest child care rates for center care, while counties with the lowest median incomes tend to have the lowest rates for center care. Although the 75th percentile cap was based upon the notion that states should not be purchasing the most expensive care, for low-income families who live or work in high income counties, failure to take the higher rates into account may severely limit their realistic options for child care services.

Using any division of the state for market rate purposes will have an impact on the size of the sample which needs to be drawn for the next survey. The last two options, however, provide the least impact and may significantly improve the choices families have available to them.

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[26]Loman, Tony and Siegel, Gary, Institute for Applied Research, St. Louis, Missouri.

Appendix C

Summary of Provider Interviews

Thirteen providers were interviewed: seven child care centers, and five family child care homes. Names of providers were obtained from the child care resource and referral agencies. One center-based and one home-based provider was interviewed in each CCR&R service delivery area. Two additional center-based providers were also interviewed, one in area 3 and one in area 5. Efforts were made to achieve a balance of providers in both urban and rural areas.

Providers were asked a number of questions about their experience with the DHS subsidy system, most specifically with regard to the paper trail, payment policies and reimbursement rates. Questions were designed to be open-ended, and providers were encouraged to talk broadly about their experiences and to volunteer any additional information they thought might be relevant or helpful. A copy of the questionnaire is attached. Responses to the interviews are summarized below.

Reimbursement Rates

Six of the providers reported that the rates they currently receive from DHS are less than their private rate. Four of the providers charge private, fee-paying families the same rate as DHS. Two of the providers served subsidized children exclusively, and had no private rate. All felt that rates should be raised.

Programs that had private rates which were equal to the DHS rate frequently stated that their rates were not high enough, but that raising DHS rates probably would not help because the private families in their area could not afford to pay higher rates (and therefore they couldn't charge DHS more.)

We asked the providers to report the rates they currently receive from DHS. When these rates were compared to the proposed rates (i.e. the most recent market rate survey), all but two were at or below the new rate maximums. The two exceptions were child care centers, one in SDA 3 and another in SDA 4. One of these centers reported that it was currently receiving POS rates that were almost $10 more than the proposed rate ceilings. This center served subsidized children exclusively.

A few providers stated that they felt a higher rate was needed for children receiving protective services as well as for "difficult" children in general. One example is a center which reported having to release two sets of siblings because the children were so hard to handle. The director felt that they needed additional staff to work closely with these children, but the rate didn't cover the cost. Apparently, these children did not fall into the category of "special needs". In one case, the children were in a foster home; in the other, they were the children of a retarded mother.

Unit of Service

Seven of the providers (six centers and one family child care provider) indicated that they would prefer a daily unit of service. Two providers (both family child care) preferred a weekly unit of service. Three providers (one center and two family child care) preferred an hourly unit of service.

It is important to note that the three providers who preferred an hourly unit of service all said that they could potentially make more money if they billed by the hour. When rates are averaged by the full (or half) day, providers receive the same rate regardless of whether a parent leaves their child for six or ten hours (or two or four hours, in the case of part-time care.)[27]

Two providers raised concerns about the fact that DHS staff currently authorize care only for the exact hours that a parent works or is in school, leaving no time for study, travel, or an occasional situation where the parent works late, has to attend court, etc. Other providers were concerned that the hourly rate would encourage this practice. Another provider told us that a family she cares for has just had their child care hours significantly reduced, and that she may have to stop serving this family because it just isn't worth her while to take children for only a few hours a day.

Absence Policies

We queried providers on the extent to which they charge private families for absences or build the cost of absences into their rate. There appeared to be a lot of confusion about absence policies. Some providers reported that DHS won't pay for absences, and that this is a problem. Others stated that DHS wouldn't pay if the family gave them 24 hours notice or if the absence resulted from the providers' own illness. Still others said that DHS wouldn't pay if the parent didn't show up for their PROMISE JOBS education or training program, even if they took their child to day care. Some of these problems appear to result from conflicting absence policies in the various funding streams, while others result from miscommunication.

Three of the providers understood that DHS would pay for up to four absences a month, but because they did not charge their private families for absences (it just wasn't the market practice in their area), they couldn't charge DHS.

Four of the providers charged both their private families and DHS for absences, and said that the absence policy was very important. Three of these providers served significant numbers of

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[27] The two family child care providers currently charge private families by the hour -- at rates above those currently paid by DHS. The center which stated that it preferred hourly rates does not currently charge hourly rates, and reported daily rates which were above the proposed DHS maximums. When the center's rates were converted to an hourly unit, assuming an average 7.5 hour day, the results were $2.57/hr infant, $2.38/hr preschool, $2.10/hr SACC -- significantly higher than current or proposed hourly rates.

subsidized families, and said that they still lost a lot of money on absences because the families they served (especially those in protective services, foster care, and teen parents) were often absent for more than four days a month.

One provider also raised concerns about the legality of charging higher rates for children with special needs in light of the Americans for Disabilities Act.

Payment Policies and Procedures

Most of the providers we interviewed did not have major complaints about payment policies or procedures. In general, the providers felt that the payment turn-around time for POS/certificates was better and more reliable than JOBS or TCC.

The few providers that did have problems were, however, very vocal about their concerns, and reported very lengthy delays (up to five months in some cases.) Although the reasons for any delay are case specific, three common reasons for payment delays were indicated in the interviews:

1) there is no procedure for informing a provider when billing errors occur (i.e. before the bill is kicked out by the computer);

2) separate funding codes require separate vouchers (which increases the possibility of errors); and

3) payment delays often result from problems with--or delays in--eligibility determination or redetermination, especially when a family shifts from one funding stream to another.

One provider suggested having computer generated forms, and would especially like one that she could put on her own computer and therefore make billing easier.

Two providers felt strongly that payment should always be made directly to the provider, as they had lost significant amounts of money in the past, when DHS made it a policy to reimburse parents and make them responsible for paying the child care provider.

Another provider, who deals with a lot of students, has problems with the policy which requires students to use a portion of their PELL grant for child care. Apparently the parents aren't always clear that they have to use a portion of these funds for child care, but they can't get any additional child care assistance until they produce a receipt showing that they have spent a designated portion of the grant on child care. Meanwhile, the provider isn't typically informed that the PELL grant is even involved in their payment collection, and typically learns only when they encounter trouble with DHS reimbursement.

One provider felt that DHS should contract with a private agency to run the subsidy program. She felt that this worked well with the food program, and would help remove much of the stigma which surrounds applying for DHS subsidies. Another provider felt that some parents who really need help won't even apply for it because they are afraid of "being labeled" as DHS clients. A third provider specifically recommended contracting with the child care resource and referral agencies to administer the subsidy program. A center director we interviewed did not speak about contracting out for services, but indicated that DHS was "overwhelmed and understaffed" and that the workers needed more support and training.

Additional Issues and Concerns

The providers were also asked their opinions about the DHS subsidy system in general, and given the opportunity to make recommendations for change.

The concern which was most frequently raised in the interviews was that the waiting lists were too long and too many families simply could not get into the subsidized child care system. For programs which serve subsidized children exclusively, the long waiting lists and subsequent "freeze" on the system has resulted in serious financial losses. One such center reported that it currently had 30 to 40 vacancies. Another provider reported that when families missed appointments with their social worker they lost their subsidy and then found that they couldn't get back into the system because entry was frozen.

The lack of effective communication between providers and DHS staff was another common concern. As one child care provider stated:

> "[The DHS] workers don't often give enough orientation in how to do paperwork, and many workers don't really know themselves. Providers don't always know they should call and ask and are sometimes made to feel that they are bothering the worker if they do call. When [providers] don't fill out the form right there is more delay in payment. When a family is switched among programs or the code is changed information has to be shared more predictably...."

A number of providers requested more information and/or training on the subsidy system in general and the payment policies and procedures in particular.

The problems which arise from dealing with so many different subsidy programs, with different workers and forms, was also apparent in the interviews. The responses which providers gave to questions about absence and payment policies clearly indicated that they were confused about what was allowed under one program or another. One provider spoke about the need for smoother transitions between programs:

> "...parents are not told they may be eligible for TCC when they go off [PROMISE JOBS]. And the worker doesn't know about other programs. She sends them to IM workers who steer

them in roughly the right direction [but they don't always get there.]....[there are too many] different people who don't know or aren't willing to tell their clients about other funding streams."

Another provider we spoke with felt that too many families were losing services when they switched funding streams or child care providers, and then couldn't get back into the system because of the freeze and/or long waiting lists.

When asked what changes they might make in the DHS subsidy system overall, many providers stressed the importance of higher regulatory standards. Some felt that payment should be limited only to regulated providers. Others felt that the family child care registration system should be mandatory.

A few of the providers we interviewed mentioned the importance of more and better provider training as a way to improve quality. One specifically suggested that DHS use some of the CCDBG quality funds to provide grants to providers who serve "at risk" children.

Appendix D

Individuals Interviewed For This Report

Project Oversight Committee

Jim Daumueller, Des Moines Regional Office

Ron Flug, DHS Central Office

Carol Gutchewsky, Cass County DHS

Betty Hare, DHS Central Office, Finance

Irene Holzwarth, Linn County DHS

Evan Klenk, Black Hawk County DHS

Doug Koons, Webster County DHS

Bob Miller, DHS Central Office, Finance

Jo Ann Naples, DHS Central Office
Data Management

Sandra Paris, DHS Central Office
Data Management

Peg Rempe, Des Moines County DHS

Cornell Smith, Polk County DHS

Rosi Sprague, Waterloo Regional Office

Other DHS Staff

Barbara Bosch, DHS Child Care Unit

Wendy Dowd, Ames County DHS

Dave Engels, DHS Central Office
Data Management

Nancy Foote, DHS Claims Processing

Norma Hohlfeld, Central Office
PROMISE JOBS

Jane Jorgenson, Central Office, Food Stamps

Don Kassar, Chief
Bureau of Individual & Family Support & Protective Services

Ralphe Klocke, Sioux City DHS

Diane Neuhaus, Black Hawk County DHS

Rosemary Norlin, DHS Child Care Unit

Debborah Ozga, DHS Child Care Unit

Susie Turner, DHS Claims Processing

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Susan Anderson
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Joan Cleary
Department of Education

Deborah Hanson
Department of Education

Dianne Milobar
Economic Development, PROMISE JOBS

Private Sector

Ramona Cunningham
Central Iowa Employment and Training Consortium

JoAnne Lane
Iowa Commission for Children, Youth and Families

John Leeper
United Way of Central Iowa

Marilyn Rowe
Job Service

Child Care Providers

Vicky Burns
Family Child Care Provider, Carroll

Deb Gustafson
YMCA Learning Center, Davenport

Yolanda Galvin Jones
Family Child Care Provider, Des Moines

Mike Knapp
Grin n' Grow, Ltd., Waterloo

Barb Krause
Family Child Care Provider, Storm Lake

Alicia Lewis
Child Development Center, Des Moines

Lorraine Martzahn
Family Child Care Provider, Bettendorf

Donna Sams
Family Child Care Provider, Atlantic

Mary Schmadeke
Group Family Child Care Provider, Cedar Falls

Karen Thelin, President
Iowa Child Care Alliance
Children's Center on Methodist Hill, Des Moines

Margaret Trullinger
Kiddsville Child Care Center, Independence

Joyce Vermeer
Cribs and Crayons, Sioux Center

Stoney Associates•Human Services Consulting•10 Tillinghast Ave
Albany NY 12204•518-463-3677•Fax 518-463-0265

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